

**THE CARIBBEAN:
CURRENT UNITED STATES RELATIONS**

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A. CURTIS WILGUS

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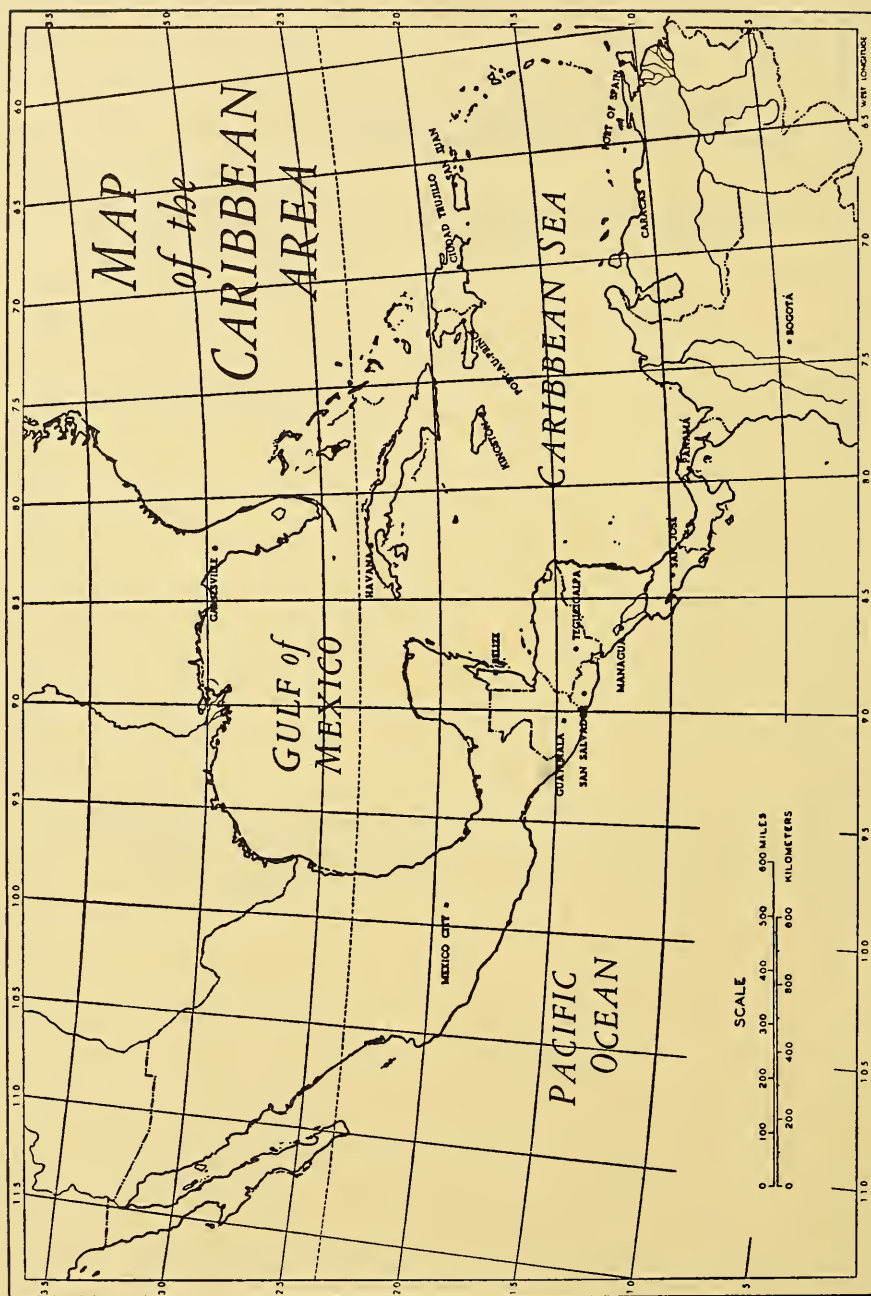
CURRENT UNITED STATES RELATIONS

SERIES ONE

VOLUME XVI

A publication of the

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which contains the papers delivered at the sixteenth conference on the Caribbean held at the University of Florida, December 1, 2, 3, and 4, 1965



The CARIBBEAN:

CURRENT UNITED STATES RELATIONS

edited by A. Curtis Wilgus



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Foreword

THE SIXTEENTH ANNUAL CONFERENCE on the Caribbean held on the University of Florida campus in December, 1965, examined contemporary United States relations with the Caribbean area chiefly from the standpoint of business. United States businessmen were invited to take part in the Conference by examining their past relations with the Caribbean countries as well as their present plans and their future hopes. Since many United States firms have a growing interest in the cultural development of the areas in which they have investments, the Conference also considered this topic. Diplomatic relations were also explored since there is an increasing tendency for our government, under the Alliance for Progress, to cooperate even more closely with the countries to the south. Logic supports this necessity, as several of these papers emphasize.

The University of Florida Press has again printed an attractive volume of proceedings which is distributed throughout the world. We are proud that this series has such wide use as a reference in many courses dealing not only with a limited area but with Latin America as a whole. The University is pleased that it can make this contribution to a better understanding of a critically important portion of the Hemisphere.

J. WAYNE REITZ, *President*
University of Florida

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Introduction

THE UNITED STATES INFORMATION AGENCY

OUR SIXTEENTH ANNUAL CONFERENCE made an attempt to survey and evaluate current United States relations with the Caribbean area. In doing this we examined our monetary relations, our business relations, our trade relations, our cultural relations, and our diplomatic relations. Most people will readily recognize that our cultural relations with the Caribbean area are of the utmost significance and importance. Indeed, at no other time in our history have they been of greater importance. Obviously, it was not possible or feasible to deal in great detail with all of the ramifications of cultural relationships between the United States and the various political units south of us; and it was not necessary, especially since at our Fifth Conference in 1954, we discussed many of the varied aspects of cultural relations by devoting the entire Conference to this subject.

One of the topics which unfortunately we had very little time for in our Sixteenth Conference is related to the activities of the United States Information Agency (USIA). Because of this neglect and because this Agency plays a very important and continuing part in our relations with the Caribbean area as well as with the rest of Latin America, it seems relevant to devote this brief introduction to a discussion of some of the objectives and plans which this Agency has developed during the past several years. Such a discussion, of necessity, must be brief, but there are a few highlights which may be emphasized.

I

In 1953 the United States government created a separate Information Agency to strengthen its binational center program. Since then, the Agency has become an integral part of our government's coordinated overseas programs.

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On March 10, 1965, Hewson A. Ryan, Associate Director (Policy and Plans), USIA, prepared a statement which he presented before the Inter-American Affairs Subcommittee of the House Foreign Affairs Committee. A brief resume of his statements will help to understand the scope and significance of the varied programs sponsored and prepared by this significant Agency of our State Department.

The Agency attempts to counteract international Communist machinations in Latin America wherever and whenever it can. During the past decade, it has attempted to develop effective, efficient techniques to get across its anti-Communist message to Latin American audiences. These techniques involve the use of mass media, cultural exchanges, exhibits of various types, seminars, publications, radio and television programs, and other related activities. Today the Agency is represented in 44 major posts in every Latin American country except Cuba, but including British Guiana, the French West Indies, and Jamaica and Trinidad. The Agency also provides personnel assistance to 113 binational centers in 19 Latin American countries. There are 205 American employees, 101 binational center grantees, and 790 local employees in Latin America connected with the Agency.

The Agency has developed three over-all policies. One, it is committed to furthering the objectives of the Alliance for Progress by all possible means. Two, it presents to Latin American audiences descriptions of the democratic process and the essential related ingredients of economic and social change. Three, it alerts the people of Latin America to the dangers of Communist penetration and subversion and it points out the weaknesses and failures of the Communist system. In doing this, it makes regular use of the Cuban experience.

At Agency posts in Latin America the public affairs officer of the embassy suggests ways and means of telling the democratic story of the United States. Each of these officers gears his activities to those of the ambassador so that there is a complete integration of all operations in each country developed on the part of the United States Department of State.

The Agency attempts to reach three types of people. First, there are the Latin American students who are generally impressionable and frequently impatient with contemporary conditions, being especially concerned with the intellectual and political climate. To accomplish this objective the Agency tries to reach students through seminars, travel grants to the United States, informal discussions, books, and cultural activities at binational centers. A second audience consists of laborers and their unions. Increased personal contact with labor leaders is carried out in Latin America chiefly through the activities of nine information officers in the embassies specializing in Latin American labor matters.

Some of these contacts are effected through the use of cartoon books, motion pictures, radio programs, and various other facilities. These officers hold seminars and discussion groups with important leaders in the labor movement. They show films in union halls and establish labor libraries where they can be easily patronized by union members. A labor magazine for labor leaders is also edited. A third group which the Agency tries to reach is the *campesino*, or the peasant. To this end, the Agency's representatives in each country are in contact with the persons managing newspapers, radio stations, and other media, who can carry the Agency's message to all parts of the country.

II

It will be worthwhile to describe very briefly some of the specific activities of the USIA which cover the Caribbean area. One of the most interesting and effective relates to radio. The Voice of America broadcasts at the present time 13 hours daily to Latin America, of which 9½ are in Spanish and the remainder in Portuguese for Brazil. Besides short-wave programs, there are standard-band programs broadcast from stations all over Latin America. Some 1,500 Latin American radio stations are at the present time broadcasting Agency programs which include almost 10,000 hours per week. Some of this is feature material provided on tape by the Voice of America. A special propaganda broadcast has been prepared for Cuba and is sent over short-wave frequencies and medium-wave transmitters with the object of keeping the Cuban people informed of our policies and what is going on in the rest of the world. The Agency also informs the other Latin American peoples about conditions in Cuba under the Communist regime and points out various weaknesses in Castro's economic, political, and social structures. In its press activities, the Agency provides daily wireless information via radio and teletype, averaging some 50,000 words per week in Spanish, which goes to all major posts. This material includes important texts, government documents, foreign policy pronouncements by people in our government, interviews, features, and news stories of significance in our foreign relations. Some of this material is adapted for use in Latin American newspapers. From Washington, the Agency sends by mail an average of 15,000 words of feature material and some 2,000 photographs weekly to the various posts in the field. This consists of special packets, illustrated press features, picture stories, and other items of special interest to the student and labor audiences relating to the Alliance for Progress and how to combat Communist propaganda.

Besides the Latin American book program, discussed below, the Agency issues cartoon books in Spanish and Portuguese. These have

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been printed in excess of 40 million copies over the past several years, and are read chiefly by mass audiences. It is interesting to note that the first cartoon book in this series was devoted to an anti-Castro theme and dealt with Castro's land reform program, his take-over of Cuban labor unions, his news media, and the Cuban universities. It also described graphically his war on the Church, his brainwashing of Cuban children, and his economic failures. A second cartoon book has just been completed which deals with Castro's schools to train youth of other Latin American countries in guerrilla tactics and subversion. Most of the cartoon books, however, have dealt with positive themes relating to the Alliance for Progress and the democratic process. A number of the books also deal with anti-Communist subjects.

Motion pictures in the form of 20 documentary films are produced each year on global themes. For Latin America, especially, the Agency has a regular monthly filmed news digest which is offered primarily to commercial theatres. This reel is positive in tone and deals with economic, social, and political progress in Latin America, and various significant developments in the United States of interest to Latin American audiences. A number of the films are of a documentary nature; for example, there is one dealing with an impoverished Colombian rural community in which the people banded together to build a schoolhouse. The animated cartoon also is used effectively, especially in the series on self-help. The history, goals, and accomplishments of the Alliance for Progress are also treated in this way. All films for Latin America have dubbed in Spanish or Portuguese which helps to carry the message to a wide audience.

The use of television by the Agency has grown tremendously in the past two years. Not only are the upper and middle classes reached, but now hundreds of antennas also appear in workers' areas in most of the large cities. One television program called "Panorama Panamericano" is a weekly show presented regularly on 114 Latin American TV stations. This carries considerable favorable propaganda concerning the United States and is anti-Communist in nature. However, the main objective of this series in 26 episodes attempts to promote self-help among the urban classes to improve health, education, and other facilities in their communities. From time to time, special films are prepared showing, for example, a Cuban arms cache in Venezuela, an hour-long documentary, and other topics of a subversive nature of which Latin Americans are sometimes unaware.

A further activity of the USIA is concerned with research. This involves a selective use of research in order to be sure that the activities of the Agency are accomplishing their objectives. A continuing study of the programs of the Agency is made with the object of sharpening the

techniques used. Another phase of research is related to the nature of the audiences reached by the Agency. These groups quite often change and it is important to know how they change. Misconceptions about the United States on the part of Latin Americans are continually being investigated with an attempt to remedy them through Agency activities. Especially is this true in relation to Latin American students. Research is also applied to publications of the Agency, not only as concerns the content, but also to determine whether or not the content is reaching the proper people in the proper way. Misconceptions on the part of Latin Americans are continually appearing and these have to be combatted by determining the best ways and means to counteract them. It is here that the individuals who administer the program can determine its success or failure.

III

One of the most significant activities of the USIA is the translation from English into Spanish and Portuguese and the publication of books for use in Latin America. Because of the great importance of this activity, a rather detailed presentation may be made here. The purpose of the Latin American book program, as stated in a mimeographed Agency document (dated October 27, 1965), is "to promote broad Agency objectives, with priority emphasis on those which advance United States government policies in Latin America. Support of all aspects of the Alliance for Progress and exposure of Castro Communism are prime examples of such objectives."

In April, 1962, President Kennedy suggested an expansion of the book publishing program. This was undertaken in the fiscal year 1963. It is interesting to note that in the previous fiscal year, 1962, the Agency supported the translation and publication into Spanish and English of 92 volumes numbering 856,000 copies. In the 1965 fiscal year the Agency supported the translation and publication of 492 new titles, translated from English into Spanish and Portuguese, numbering over 6 million volumes.

From the beginning the emphasis has been on low-cost paperbacks—the retail price of which is under 50 cents in United States currency—which are easily obtainable by the masses of people in Latin America. The spread of the subject matter of these books ranges from United States literary classics to books having strong political and economic impact. A problem related to printing is that of distribution. This has not yet been completely solved but continuing efforts are being made to build up distribution outlets in Latin American countries so that all people can be reached. For this and other reasons, offices staffed by a regional book officer and a deputy regional book officer have been set up

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in Mexico City, in Buenos Aires, and in Rio de Janeiro. These officers are also concerned with making contracts for and overseeing translation, publication, and distribution of the books.

Book selection is controlled by and is the responsibility of the central office in Washington. Suggestions for books to be translated come from a variety of sources, including ambassadors, USIA posts, exchange professors, Latin American publishers, members of the United States Congress, librarians, and other interested persons. Book titles are incorporated into a master list and sent to the three regional offices, where persons with a requisite knowledge make a final selection. The next step is to assign priorities to all of the titles to be used as a guide in the translation and publication of the books.

It is abundantly clear that a substantial and growing market exists in Latin America for United States books in translation. Most of the editions are eventually sold out, with some 60 per cent of the titles in the active market at any given time. Since most of the books are sold within three years of printing an increasing number of United States publishing companies have become interested in taking on more responsibilities in relation to the program than they originally felt they could do. When the Agency prints the books, it usually purchases rights from the United States publisher. Occasionally the Agency directly subsidizes a title originally printed by a United States firm. Also, if a United States firm publishes a book in Spanish or Portuguese, the Agency may buy a certain number of copies outright for distribution throughout Latin America.

Not only have these books been distributed widely to masses of people, but many of them have also been used as effective teaching tools in a variety of courses in Latin American colleges and universities. In Guatemala, for example, several of the books have been used in seminars. In most cases the books are being used increasingly to complement a variety of agency activities. All indications now are that the book program will continue to expand and develop and become increasingly effective in all Latin American countries.

IV

The binational centers mentioned above play an active role in making effective the aims and objectives of the USIA. These centers were once considered primarily as cultural institutions for the teaching of English, but they now have become engaged in promoting the Alliance for Progress and democratic processes in Latin American areas. They offer particularly effective contacts with university students in Latin America, many of whom come to the centers to learn English and to use the libraries. At present, there are 21 student specialists attached to the binational centers in Latin America. By 1960, 99 centers were receiving

United States assistance, and in 1965 there were 113 in Latin America.

The binational center program dates back to 1927 when an organization was created by Argentines who had lived and studied in the United States. Their purpose was to form an organization which would foster friendships and maintain contacts made during years they were in the United States. World War II and the decade which followed saw the creation of friendship societies sponsored by various nationalities. These groups early acted as screening agencies and clearinghouses for the United States scholarship program. While Nelson Rockefeller was Coordinator of Inter-American Affairs during the war he realized the significance of this movement and first planned the encouragement and support of these cultural centers. By 1945 some 28 centers were receiving help from the United States government. This assistance consisted of providing books and long-playing records for libraries, occasional grants of funds for special purposes, and the supplying of English teaching specialists and textbook materials. For several years, little further progress was made in strengthening the cultural centers until finally in 1953 the USIA program was established. Now, though binational centers are distributed world-wide, the most active and probably the most effective are in Latin American countries, where they have strengthened all phases of the USIA program.

By definition a "binational center" is a cultural institution founded on the local initiative of a group of nationals in any given foreign community with the cooperation of resident Americans, for the purpose of stimulating in an apolitical atmosphere the teaching of English and the interchange of cultural accomplishments of mutual interest to both countries. Upon the request of such a cooperating group to the USIA, and upon the determination that the organization has a viable program that can operate in an area with sufficient potential support, the United States government will accord it a binational center status and assign to it varying degrees of financial and program support depending upon its size, need, and capacity for programmed operation. Support ranges from the assignment of professionally trained and experienced American directors, linguistic experts for the direction of language programs, and in large operations specialists in youth and student affairs, to the providing of English teaching materials, library books, basic furnishings, and initial modest installations. Sizes of the centers range from those in the capital cities where English teaching enrollment may reach 15,000 (as in the case of Mexico City) to smaller cultural entities in provincial areas with English language enrollments of only several hundreds, but with an attractive peripheral cultural program involving both national and United States representatives and activities.

Besides providing English teaching, the centers supervise broad, all-

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embracing cultural programs offering the best description of the cultural heritage and contemporary efforts being made in the fine arts. The center activities are directed by a professional man or woman with an academic background who has the requisite language qualifications.

The following quotation is from a paper presented to the Second Southern Regional Conference on International Education, November 18, 1965. The information it contains is of importance regarding various changes and refinements that have taken place in the binational centers the last few years.

"Establishment of these cultural organizations is not necessarily stimulated or coordinated by United States interests; they evolve by free and open desires and decisions of Latin Americans whose affections, bonds and interests with the United States are framed not only from some personal experience in our country but from a deep knowledge and appreciation for the principles of such famous Americans as Franklin, Jefferson, Lincoln (witness the names given to so many of our libraries and institutes), and from the inter-American solidarity concepts developed by Roosevelt, Eisenhower, Kennedy, and prominent figures in their and the present administrations. . . . This knowledge, often spiced with a firsthand experience in the United States through an educational interlude or tourist visit, engenders the kind of kinship that transcends political strife, ideological debate, and intense nationalistic idiosyncracies. This kinship bridge then allows for free interplay of cultural exchange and to a more subtle achievement of legitimate program objectives sought by our country." A unique feature of these centers is their detachment from official, bureaucratic operations of the United States missions in any one country. Hence they enjoy an autonomy and a political existence of authentic national origin continuously maintained.

This same document also describes in great detail the organization of a typical center in a capital city such as Mexico. "The typical center in a large, capital city will be governed by the Board of Directors. Members of the Boards are selected from citizens of the host country and United States citizens resident in the country. Leadership status is usually a prerequisite for board membership, and there can usually be found on Boards such persons as ex-rectors of universities, nationally known scientists, economists, lawyers, and financiers; ex-Ambassadors and Ministers, and active educators. On the American side, members are usually leaders in the American community representing for the most part business and industrial leadership.

"The centers are non-political, non-sectarian, and non-profit cultural institutions. As such they are incorporated under the laws of the host country and operate under a set of bylaws and statutes acceptable to the host government as well as to the United States sponsoring Agency. They

are thus a national entity that enjoys binational characteristics and operational latitude.

"An Executive Director implements the policies of the Board. The Executive Director is furnished by the United States government through the USIA by term contracts in 58 centers. Executive directors are non-voting members of the Board and develop and direct a program of English teaching and cultural and representational activities in which the host country and the United States are properly and appropriately identified. Directors must be astute business managers; they must have the feel for Latin-American relations; they must be fluent in Spanish (or the language of the country); they must have an adequate academic background in American culture, educational methods in teaching English as a second language, and American history and political thought; they must be able in public relations realms and a father confessor to all the publics that participate in the activities of the center. Aside from the traditional English teaching curriculum, there will be, in addition: dance classes—modern and classical; art classes and continuing exhibitions; dramatic arts presentations; American civilization courses; courses in the culture of the host country; jazz clubs; motion picture clubs; alumni associations; snack shops and restaurants; libraries; music listening salons, and so on. Coordinating these myriad activities to the satisfaction of participants and the Board, and directing a successful business enterprise in fiscal matters is a Herculean task.

"A Director's staff usually consists of a Director of Courses and a Director of Activities. Sometimes too these are American grantees furnished on a contract basis by the United States government. Other times they are competent nationals who have had specialized training in linguistics and teaching methods and organizational activities. The Director of Courses takes charge of the academic program of English teaching, and the Director of Activities organizes and schedules the many peripheral cultural activities that point up the cultures of the two countries. In some centers there is a Student Affairs Grantee whose special duties are to engage university students and arrange programs involving them. The student seminar is an extremely effective example of the work of Student Affairs Grantees within the binational centers.

"Teaching staffs are recruited from the local English-speaking community—be they Americans, nationals, or whatever nationality. Service personnel and concessionaires are contracted and hired locally. The Director prepares an annual budget and justifies his program to the Board. He receives his salary (including any allowances) from the United States government and looks to the USIS office in his country for guidance and additional support. It is evident that given the prestige of a binational board of directors representing respected leaders in the commu-

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nity, a dynamic director considered *simpático* by center patrons, a competent staff, a successful English teaching program, and a program of broad cultural offerings, then the impact of such an establishment will be substantial and will redound to the best interests of Latin American relations transferable to other areas of United States objectives that are active in a country."

V

It is thus apparent that the binational centers constitute a strong right arm of the USIA which controls their operations. In September, 1965, President Johnson gave forceful impetus to the overseas activities of the USIA and especially of the binational centers. This was at the bicentennial celebration of the Smithsonian Institution in Washington in which he recommended that a special task force undertake a broad and long-range plan of world-wide endeavor. His five-point program includes the activities of the USIA as already practiced in Latin American countries. The President indicated his intention to present a program to the next session of Congress which would implement these objectives. Certainly any future activities in Latin America by the USIA will include the Caribbean region, for as long as Castro's Cuba constitutes a political, economic, and cultural thorn in the side of the United States, it seems clear that whatever objectives the USIA has will help to counteract not only Castro Communism but also Russian and Chinese Communism in the area.

One cannot overemphasize the importance of a friendly and meaningful contact between the peoples of Latin America and the personnel from the United States connected with the USIA. Working in harmony with local situations and attitudes the Agency is promoting effectively a fuller and wider support of the policy and objectives of the United States.

A. CURTIS WILGUS, *Director*
Caribbean Conferences

Note on sources of information: This account is based on personal observations in Latin America, on discussions and correspondence with officials of the USIA, on articles in *Review of Operations*, numbers 20, 21, and 22 (January, 1963, to June, 1964), and on the following mimeographed statements: "Address Prepared for the Second Southern Regional Conference on International Education," November 18, 1965; "Statement by Hewson A. Ryan, Associate Director (Policy and Plans), USIA, before the Inter-American Affairs Subcommittee of the House Foreign Affairs Committee," March 10, 1965; and the "USIA Latin American Book Program," October 27, 1965.

Part I

MONETARY RELATIONS

José A. Mestre: INVESTMENTS

ABOUT THE ONLY GENERALIZATION that can be made about foreign private investments in the Caribbean is that this area offers the widest range of rules, conditions, and business environments in the world. From the most favorable receptivity for United States investors found in Puerto Rico, to the most hostile stance against private foreign capital in Cuba, the Caribbean area presents the widest spectrum of both possibilities and difficulties for the imaginative corporate planner. Some of the countries of the Caribbean (e.g., Mexico and Colombia) provide excellent bases to manufacture for the broad market of the Latin American Free Trade Association (LAFTA), others constitute the Central American Common Market (CACM), the French and Dutch islands provide an entrée to the European Economic Community (EEC), and still others form part of the United States and British markets.

I. Defining the Geography and the Investments

In determining what is meant by "the Caribbean" for investment purposes, it is first necessary to define the types of investment. The most conspicuous investment has been in hotels and real estate. The balmy sunny climate, lush natural beaches, proximity to the United States and exotic atmosphere have made the Caribbean a tourist paradise. The limited surface of the islands, coupled with the rapid development of the area and building race have brought about an unprecedented real-estate boom.

But this very lucrative use of foreign funds will not be considered in this study. Instead, only investments to develop marketing or production

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facilities which lead to a more progressive and steady economic development in the countries of the Caribbean will be examined.

For Marketing

Most United States firms operating in the Caribbean define this area differently for marketing and for manufacturing purposes. For the marketing executive, the Grand Caribbean is generally considered to include all the bordering countries: Mexico, CACM (Puerto Rico, El Salvador, Guatemala, Honduras, and Nicaragua), Panama, Colombia, Venezuela, the Guianas, and all the islands with a market potential. Some companies even extend the Caribbean area for marketing purposes to include Ecuador and Peru, while others lump in the Bahamas and Bermudas.

For Manufacturing

For production purposes, however, the area of potential is usually much reduced, and limited at present to the string of isles arching from Jamaica to Aruba. The manufacturing plants in the major markets of Mexico, CACM, Colombia, and Venezuela are usually autonomous and fall under a different regional division. For instance, one glass manufacturer has centralized its marketing efforts for the expanded or Grand Caribbean area from Puerto Rico, while its manufacturing plant in Mexico is directly controlled by the parent in the United States. Similarly, a manufacturer of office machines directs all its sales efforts for most of Latin America from Puerto Rico, but the Mexican plant is supervised by the home office. Others control the northern half of Latin American comprising the Grand Caribbean from Mexico, Panama, or Venezuela, as far as sales are concerned. But plant responsibilities are usually restricted to smaller areas, usually limiting the Caribbean to plants located in the West Indies.

II. The Market Size

United States investments in the Grand Caribbean were estimated at \$6.44 billion in 1964. The total market of this area was approximately 100 million people with a gross national product (GNP) of \$47.24 billion (see Table 1). In the Caribbean proper, investments for producing facilities are almost nonexistent, except for the recent bootstrap industries in Puerto Rico and the oil facilities in Curaçao and Aruba, plus a few scattered industries.

The size of the markets in each of these small islands is obviously too small to justify any viable industry. As long as these markets remain isolated there is little hope that much venture capital will flow to industrialize and develop this part of the world.

III. The Outlook for Economic Integration

As the modern world shrinks in size under rapidly improving transportation and communications facilities, and as industrial plants grow in size to increase efficiency and cut costs in competing for mass markets, economic integration is swiftly transforming unviable and isolated markets. Foreseeing the necessity of creating vast markets of the United States type, Western Europe developed the European Economic Community (EEC) and the European Free Trade Area (EFTA). Latin America also recognized and understood this phenomenon, and the two economic groups—CACM and LAFTA—have achieved unprecedented success in providing the broad markets necessary to attract modern and economically feasible industries.

The Caribbean can no longer live in accordance with its geography and past history if it is to develop faster. Added together, the area provides a market of 23 million people importing \$4.6 billion yearly, enough to justify a substantial investment flow to industrialize the area. In order to do so, free trade must be possible. It is conceivable that in the final analysis, the entire area should become part of a totally integrated Latin American Common Market, but this is still too far in the future for any type of realistic planning. Meanwhile many possibilities have been suggested. Joining either CACM or LAFTA would seem the most likely, but with the amount of difficulties faced by both of these economic groups, the possibility of adding new members from among the Caribbean islands also seems quite remote. At present there seems to be, rather, a trend to group the islands into different existing blocs: the Netherlands and French Antilles, seeking closer ties with EEC; Puerto Rico and the Virgin Islands with the United States mainland; the British colonies with the Commonwealth; while the independent islands continue to drag their feet under present political conditions.

Cuba is at present tied to the Soviet economy, but the hardships brought about by this uneconomical situation, and the negative results thus far experienced, should discourage these ties in the future, when a new government can restore some degree of economic common sense. Off-the-record exploratory contacts indicate that a future democratic government in Cuba would seek some type of close association with LAFTA, and that the latter would reconsider its refusal to accept Cuba's request for membership under the present dictatorship imposing unsound economic policies.

The Dominican Republic will have to straighten its political mess and then consider ties with other nations. Ex-President Juan Bosch has expressed his inclination toward the creation of a Caribbean Federation, and the possibility of seeking some type of association with CACM when

TABLE 1
POPULATION, GNP, GDP PER CAPITA INCOME, AND UNITED STATES INVESTMENT

	1964 Population (in millions)	% Annual Increase	1964 GNP (\$ billion)	GDP % 5-yr Real Increase	\$ Per Capita Income 1963	Estimated Total US Investment (\$ million)
Puerto Rico	2.58	1.9	2.70	51	839	820
US Virgins	.04	3.1	na		na	
TOTAL US	2.62	1.9	2.70		839	
Jamaica	1.70	1.8	.82	201	397	
Trinidad/Tobago	.95	3.1	.61**	612	504	
Subtotal (Brit. Indep.)	2.65	2.1	1.43		435 ^e	
British Guiana	.63	2.8	.19**		220	
Barbados	.24	na	.97*		364	
Bahamas	.13	2.1	na		....	
Other Possessions	.15	3.1	na		....	
Subtotal (Brit. Depend.)	1.15	2.7	1.16		300	190
TOTAL BRITISH	3.80	2.2	2.59		400 ^e	
Surinam	.32	5.2	.12**		349 ³	
Neth. Antilles	.21	1.5	.24*		877	
TOTAL DUTCH	.53	3.2	.36		600 ^e	
Martinique	.31	2.5				
Guadaloupe	.31	2.5				
French Guiana	na	na				
TOTAL FRENCH	.62	2.5	na		na	
Dominican Republic	3.50	3.6	.85**	22½	189	

TABLE 1 (Continued)

	1964 Population (in millions)	% Annual Increase	1964 GNP (\$ billion)	GDP % 5-yr Real Increase	\$ Per Capita Income 1963	Estimated Total US Investment (\$ million)
Haiti	4.60	2.3	.33**		65	
Cuba	7.43	1.8	na		na	
TOTAL WEST INDIES AND POSSESSIONS	23.10	2.2 ^e	6.83		250 ^{e/4}	1,010
Mexico	39.64	3.2	17.89	38	411	1,035
CACM	12.20	3.2	3.59	27	270 ^e	400
Guatemala	4.30	2.9	1.31	24	268*	
Honduras	2.09	3.2	.47	19	190	
Nicaragua	1.60	2.9	.49	47	260*	
Costa Rica	1.39	4.5	.56	24	336	
El Salvador	2.82	3.1	.76	38 ⁵	240*	
Panama	1.19	3.2	.53*	33	388 ³	663
Colombia	17.48	2.2	4.50	27	235	520
Venezuela	8.43	3.4	7.07	23	781	2,808
TOTAL CARIBBEAN PERIMETER	78.94		40.41		380 ^e	5,426
TOTAL GRAND CARIBBEAN	102.04		47.24		360 ^e	6,436

Source: UN Statistical Yearbook, Monthly Bulletin of Statistics, Department of Commerce, BI Market Indicators.

Notes: e—BI estimate, *—UN estimate. **—AID estimate. 1. Current terms. 2. 4-year increase. 3. 1962. 4. About \$600 for Puerto Rico and European possessions.

TABLE 2

IMPORTS, EXPORTS, TELEPHONES, AUTOMOBILES, AND TV's

	1964 Imports (\$ million)	1964 Exports (\$ million)	1964 Imports from U.S. (\$ million)	1964 Telephones in Use	1965 Automobiles in Use	1964 TV's in Use
Puerto Rico	1,354	918	1,234	172,009	222,300	300,000
US Virgins	96	25	69	6,415	8,300	
TOTAL US	1,450	943	1,303	178,424	230,600	300,000
Jamaica	282	218	79	43,041	51,000	20,000
Trinidad/Tobago	426	405	53	35,060	47,000	19,700
Sub-total (Brit. Indep.)	708	623	132	78,101	98,000	39,700
British Guiana	87	95	14	10,100	12,000	n.a.
Barbados	64	36	8	12,412	8,800	2,500
Bahamas	81	16	96	16,325	15,600	n.a.
Other Possessions	n.a.	n.a.	18	7,228	12,000	n.a.
Sub-total (Brit. Depend.)	232	147	136	46,065	48,400	2,500
TOTAL BRITISH	940	770	268	124,166	146,000	42,200
Surinam	81	47	33	6,576	6,800	0
Neth. Antilles	784	630	85	17,120	21,500	22,000
TOTAL DUTCH	865	677	118	23,696	28,300	22,000
Martinique	79	29	12	7,703	10,000	2,000
Guadeloupe	79	35		5,330	9,700	
French Guiana	n.a.	n.a.	1	1,234	1,500	n.a.
TOTAL FRENCH	158	64	13	14,267	21,900	2,000

TABLE 2 (Continued)

	1964 Imports (\$ million)	1964 Exports (\$ million)	1964 Imports from U.S. (\$ million)	1964 Telephones in Use	1965 Automobiles in Use	1964 TVs in Use
Dominican Republic	220	180	114	27,514	19,000	50,000
Haiti	41	40	24	4,400	7,800	5,000
Cuba	1,015	714	0	223,745	n.a.	500,000
TOTAL WEST INDIES AND POSSESSIONS	4,689	3,388	1,840	596,212	454,000	921,200
Mexico	1,493	1,054	1,076	659,785	680,000	1,071,000
CACM	771	662	316	84,166	94,200	116,400
Guatemala	202	158	83	20,000	30,000	45,200
Honduras	102	95	49	9,266	8,000	8,000
Nicaragua	137	118	57	13,900	12,500	6,200
Costa Rica	139	113	60	20,400	20,700	30,000
El Salvador	191	178	66	20,600	23,000	27,000
Panama	198	68	110	39,086	27,000	100,000
Colombia	586	537	246	372,217	123,000	350,000
Venezuela	1,272	2,742	600	242,264	320,900	401,100
TOTAL CARIBBEAN PERIMETER	4,320	5,063	2,348	1,397,518	1,245,100	2,038,500
TOTAL GRAND CARIBBEAN	9,009	8,451	4,188	1,993,730	1,699,100	2,959,700

Source: *UN Statistical Yearbook, Monthly Bulletin of Statistics*, Department of Commerce, BI Market Indicators.

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the Federation can stand on its feet. As CACM moves closer to LAFTA, this might provide the route over the next 20-50 years for the integration of all Latin America into a massive economic unit.

So far, however, the fact seems to disprove this trend toward greater economic unity. In June, 1965, the Caribbean Organization, headed by its Secretary-General, Clovis Beauregard, was disbanded, dealing a fatal blow to the fledgling efforts toward the establishment of an economic bloc. This has meant a premature death to the hopes of bringing all the islands that constitute the Caribbean, plus the three Guianas, into the Caribbean Organization (it had established its office in Puerto Rico).

A new attempt is now under way, with the Secretary of State of Puerto Rico, Dr. Carlos J. Lastra, spearheading the movement through the creation in mid-1965 of the Caribbean Industrial Development Corporation. This new entity will seek to fill the vacuum left by the disbandment of the Caribbean Organization. It seeks to accomplish its goals in a business-like way, starting with a capital of \$600,000 and calling on commercial banks and government funds to finance Caribbean-wide projects.

The new Caribbean Industrial Development Corporation includes in its integration efforts all of the smaller Antilles (Cuba, Haiti, and the Dominican Republic are excluded), which had a combined population of 6.6 million on January 1, 1963, an average yearly growth of 2.8 per cent and will have a projected total population of 7.8 million by 1970. This is an area of very high population density, which will rise from 516 persons per square mile in 1963 to 605 persons by 1973.

Industrialization in this area is currently concentrated in six major fields: aluminum, petroleum, salt, sugar-rum, processed foods, and tourism. Ancillary industries and labor-intensive, light industries are following, but investment in heavy industries will be limited to very special cases, such as the petrochemical complex building up in Puerto Rico, designed to tap the United States market.

How the Caribbean Industrial Development Corporation is going to achieve its goals of opening the markets of the islands stretching from Jamaica to Trinidad is not yet clear. It seems very much like a miniature AID program with Puerto Rico playing the role of Uncle Sam. Private firms have been asked to lend a helping hand, and already some are prepared to cooperate, but only time will determine the course of this new effort at uniting the isolated islands of the Caribbean.

IV. Investment Difficulties and Solutions for the Integrated Market

Because economic integration creates so many investment opportunities, numerous studies have also been made in Latin America to avoid foreign capital completely taking over all the new opportunities that

open up. Notably, the special Economic Commission for Latin America of the United Nations(ECLA) has stated that foreign capital should flow into the area under conditions that would not necessarily take complete control of the basic industrial sectors of the area.

Under the Punta del Este Charter, which created the Alliance for Progress, it was also stated that mobilization of foreign investments for the development of Latin America should be coupled with the self-help measures in order to make the foreign inflow just a complementary factor to speed progress. This has led to the basic statement of a policy requiring joint ventures whenever possible in the cases where foreign capital is to develop regional industries.

Foreign investors attracted by the vast potentials of economic integration (and afraid of losing the entire market if they stay out) are going to be under pressure to accept local investors, and manufacture in Latin America through mixed or joint ventures. Even foreign investments in the form of joint ventures might be restricted to the areas which are most difficult for local investors and which are needed to speed the process of economic development.

Three specific fields have been earmarked for foreign capital under joint ventures into LAFTA:

- (1) Industries that require a broader market;
- (2) Industries that are developed under complementation agreements; and
- (3) Specific projects created to help the lesser developed countries (Ecuador and Paraguay).

Another instance of the way investments are being considered in Latin America is the basic study made by ECLA of the investment needs in three basic industries. In the case of the steel industry, ECLA indicates that demand for steel ingots in Latin America by 1975 will be 17.3 million tons, and in order to achieve this production a total investment of \$5.9 billion will be required for the type of plants that are at present being established for the national markets. But if in the future plants were established for the broader regional market, the total investment required would be \$2.15 billion, thus permitting the area a new saving of \$3.75 billion.

Similarly, ECLA has studied the situation in aluminum and has found that for 1975 the total consumption will be about 270,000 tons, requiring about \$178 million on a regional scale, but \$235 million if national plants are considered.

In the case of paper and pulp, ECLA estimates an annual deficit of about 1.9 million tons of pulp and 2.1 million tons of different types of paper, requiring a total investment of about \$2.18 billion in order to

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provide for the additional plant capacity. However, if regional plants were designed, a saving of about \$838 million could be realized. The greatest difficulty posed by this type of investment under joint ventures for foreign firms is the inflexibility that it will establish for future rearrangements of production schemes throughout the area.

Suppose that a firm had five or six plants in various Latin American countries and the interest of the foreign investor was only 50 per cent, with local investors as partners for the other 50 per cent in each plant. This company would find itself virtually hamstrung if ever it decided that a plant was uneconomical and should be closed to allow more efficient production of another plant to supply the market. Obviously the local partner would raise all kinds of difficulties because his interest would, of course, be to keep the plant in his country, regardless of the over-all economics involved.

To solve this difficulty some companies have devised the idea of a Latin American holding company where the foreign investor would have 50 per cent interest and local capital would comprise the remaining 50 per cent. Under this scheme, the 50 per cent allotted to local capital would not be subscribed by nationals of only one country, but rather split among the nationals of the various countries where the plants would be established. Of this 50 per cent, a portion of the equity could be given out to the major partners in each one of the countries and another portion sold on the open market to the public of all the countries. This would not only provide for public ownership and participation in the enterprise, but would also unite all the local partners in a common venture, making it unnecessary to assure anyone of them that the plant would be in his particular country. They would join in the over-all effort since their interests would be enhanced when production was directed to the place where economically it would be most advisable.

V. Foreign Investments in the Major Markets

Mexico

By far the most important market in the area is Mexico. Its political and economic stability, plus its rapid growth, has made it one of the most attractive sites for foreign investors. Many major United States manufacturers are engaged in Mexico with investments totalling \$1.04 billion in 1964.

The major obstacle to foreign investments is the "Mexicanization" drive, which is generally used in a loose sense to characterize Mexico's desire to increase the role of Mexican nationals in the country's activities. The most significant aspect of the Mexicanization policy is the desire to have at least 51 per cent Mexican capital in all industrial enter-

prises. This policy is legally applicable to very few industries; but any new firm proposing to engage in any industrial activity will most probably have to yield to this requirement, especially if the company will need any government help, such as import licenses, visa permits for experts or managers, tax incentives, and other aids. Older firms already established in the country usually come under some degree of pressure to give up part of the equity and "Mexicanize," although usually this pressure is subtle and flexible enough to preclude any major problem. Still, several firms have succeeded in entering the Mexican market recently with wholly-owned subsidiaries, when they have offered some new technique, or opened an export avenue, or otherwise introduced a favorable element to the Mexican economy, in the opinion of its leaders. One instance is Pet Milk, which entered a year ago to raise and freeze strawberries for export to the United States, introducing new agricultural techniques in depressed areas and opening new export possibilities. Heinz and Campbell met with similar success.

To solve the ownership problem and the Mexican desire to have their nationals participate in the industrial development, most firms have entered joint ventures with local partners. Mexico boasts a large number of rich and sophisticated industrialists ready to join forces with most foreign firms. Prominent among these are the Cuahtemoc group of the Garza Sada, and the Zambrana family in Monterrey, the financial groups behind the two main banks of the country, Banco Nacional de México and Banco del Comercio, plus a myriad of private enterprises which include Bruno Pagliai, Carlos Trouyet, and Ruiz Galindo.

In some sensitive industries, particularly in the oil, petrochemicals, and mining fields, the laws are considerably tougher and usually require a participation of the government through one of the agencies in charge of the activity. Outstanding among these is the country's largest industrial enterprise, *Petróleos de México S.A. (PEMEX)*, which is a state monopoly for the drilling and refining of oil. Further chemical processes are open to foreign investors, but the intermediate stages are 60 per cent reserved for Mexican capital. Some foreign firms have formed joint-ventures with PEMEX, e.g., Du Pont, with a 49 per cent interest in the \$8 million petrochemical plant, and *Tetraetilo de México S.A.* (producing tetraethyl lead).

Still other foreign firms have solved the Mexicanization requirements by going public and selling a substantial portion of the equity of a local subsidiary on the stock market. A most successful public launching was that of *Kimberly-Clark* in 1962. Other firms that have gone public in Mexico include *Union Carbide*, *Du Pont* (*Pigmentos y Productos Químicos S.A.*), and *Celanese*.

But the Mexicanization drive is not limited to the ownership of the

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firms' equity. It also extends to requiring an ever-increasing participation of Mexicans in the work force (both in top management and technical levels) and a fast industrial integration process by demanding a greater amount of national content in the final product.

The integration process has been most significant in the automobile business. Automobile makers were forced by decree to achieve 60 per cent local content by value no later than September, 1964. This requirement forced major foreign companies, including Chrysler, Ford, and General Motors, and leading parts manufacturers to make substantial investments in order to produce the engines locally, and to develop locally many more parts and components to meet the deadline, which seems to have been met by all major manufacturers. Typewriters, refrigerators, and many other products have gradually come under similar content regulations which have spurred the industrialization process. However, prices have also risen, because the forced industrialization process for a relatively limited market tends to make manufacturing an inefficient process at uncompetitive prices, artificially maintained by the government.

On the other hand, the excessive restrictions placed by the Mexican government on foreign personnel coming to work in Mexico, designed to give more employment to the nationals, has deprived the country of an important source of income in the way of corporate sites for regional headquarters. Mexico's proximity to the United States, good communications, excellent facilities, and amenities have made most firms think of it as the ideal location to establish regional offices to manage and direct the firm's businesses in all or most of Latin America. However, the difficulty in securing permanent residence visas for a rather large number of officers who must be traveling almost constantly has made many firms give up Mexico as the site of their headquarters. Indeed, the Mexican law requires persons entering Mexico for business purposes to secure an Immigrant visa, which must be renewed every year for 5 years (then the immigrant becomes an *inmigrado* and has many more rights), and such persons cannot remain out of the country for more than 90 days in any year. Still, many firms have been able to establish their headquarters in Mexico, either because many of their executives in the Latin American area are Mexicans or *inmigrados*, or simply by hoping some solution would always be forthcoming and new permits or visas issued whenever the old ones expired. Firms that have set up their headquarters in Mexico include Schering, Prestolite, and Parker Pen; Kimberly-Clark is planning to do so, and others have established in Mexico subregional offices to manage the northern half of their Latin American operations (e.g., International Business Machines).

Mexican Investment Prospects.—In order to attract private investment

to a number of industries which the government considered important to the development of the country, the government of Mexico issued in June, 1962, a list of industrial products in about 450 different industrial fields in which they would like to see private capital engaged. Total investment budgeted to take care of the list of proposed industrial investments would have been something like \$1.28 billion. By the end of 1964, 391 projects with a total investment of slightly more than \$1 billion had been carried out, thus having achieved 82 per cent of the original goal and created 86,000 new jobs.

When President Gustavo Díaz Ordáz took office in 1964, he announced his purpose to undertake a new development program and again invited private investors to join the effort. Now the government has issued a new list of industrial possibilities of some 370 industrial groups in which he would like to see private enterprise develop new productive facilities.

Of the 370 industrial products, 18 are in the steel and iron industry, 90 in the mechanical industries, 5 in electric machinery and equipment, 23 in the automotive industry, 31 in the electrical appliance, electronic, and telecommunications field, 6 in the instrumentation field, 83 in the chemicals and petrochemicals, 65 in pharmaceuticals, 12 in cellulose, 24 in farm products, and 9 in mineral products.

Central America

South of Mexico, 5 countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua) combine a population of 12.2 million inhabitants and a gross national product of about \$3.2 billion in one of the world's most successful attempts at economic integration, CACM. Monetary stability has always been a feature of this area, but the political picture has never been entirely satisfactory, although Costa Rica has one of the longest established democracies in Latin America. Even today Honduras and Guatemala are under military rule.

While each one of these countries individually considered offers little opportunity for substantial industrial investments, their combined market does provide for some viable projects. In just 5 years of existence, the move toward a common market under the Managua Treaty of 1960 has already eliminated internal tariffs on practically all products, and the external outer tariff against third-country imports is practically completed. A mechanism to clear payments is operating successfully and plans are well advanced to establish the Central American peso as a monetary unit for the entire region. Similarly, considerable efforts are under way to unify company, labor, tax, and patent laws.

Total foreign investments in Central America are estimated at over \$400 million in 1964. Among these are Allied Chemical and Standard

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Oil Company of New Jersey in Costa Rica; Kimberly-Clark, Crown Zellerbach, Phillips of Eindhoven, Eberhard Faber, and Phelps Dodge in El Salvador; General Tire, Ray-O-Vac, Warner Lambert, Ralston Purina, American Cyanamid, and Genesco in Guatemala; Westinghouse, Atlas Chemical, Nestle, and General Mills in Nicaragua. All the countries are interested in attracting foreign investments and have considerable tax incentives to sweeten the way. Under the CACM harmonization efforts, a common tax incentive program has been established.

CACM's principal organ is the Central American Council formed by the Ministers of Economy of all five member countries. There is also a permanent Executive Committee with a representative from all five members and a Secretariat (SIECA) which conducts all the administrative work and most of the day-to-day business, both of which are located in Guatemala City. The degree of success of CACM is well exemplified by the increase of internal trade from \$36.8 million in 1961 to \$66.2 million in 1963 and \$105.5 million in 1964, which was already greater than the \$100 million goal established for 1965 when the CACM agreements were signed.

Because every group of nations attempting to achieve economic integration offers bright opportunities for investors in general, and especially to foreign investors, CACM has been attracting considerable foreign capital. The Central American Bank for Economic Integration (CABEI) released in 1965 a list of some 36 industrial investment opportunities whose total investment value is well over \$53 million. Not only has CABEI listed the industries which offer the greatest opportunities in the area, but it also offers, as an additional inducement, to take the initiative in these industrial areas, to finance up to 60 per cent of every project (with 8 per cent interest over a ten-year term), plus an offer to take equity participation in some of the ventures.

But in order to avoid foreign investors taking over completely the industrial potentials that are being opened in Central America, CABEI has set a policy of marrying foreign investors with local partners in 50-50 joint ventures. Among the products selected for investment by CABEI are 8 processed foods opportunities, 15 in metal products, 1 for domestic tableware, 6 in the chemical field, and 2 in pharmaceuticals. Realizing the difficulty of raising enough local capital in Central America and the need to have the local investors benefit by the general industrial development, the ministers of economy of the five CABEI countries had a meeting during June 19-21, 1965, to consider the problem and set out the basic policy for this problem. The main points of the policy are as follows:

1. It is essential for the economic development of the region that local capital be developed and engaged in the investment opportunities that

the common market is opening. At the same time, it is also essential that foreign capital be guided to the productive sectors, especially where there are none in existence and there are no legal restrictions.

2. It is desirable that joint ventures with local and foreign capital be established to develop the industries whose complex technology, size of the investment, and marketing requirements are such that local capital by itself cannot profitably develop.

3. In those sectors where local capital has enough experience and the possibilities to develop the industries by themselves, all incentives should be given to Central American firms and as little as possible to those with foreign capital.

4. Foreign investments will be required to provide the necessary technology, organization, and marketing know-how for the success of the enterprise. In order to help develop the management capabilities in Central America, foreign investors would be required to join local people and help train them on all levels.

5. It is also essential that foreign investors give local Central American investors the opportunity to buy an equity position in the firms.

6. Considering the above, it is now in the cards that the various Central American countries will draw up the rules, laws, and regulations to implement these broad policies. In substance, this would mean that the joint venture would be greatly favored for this area. A notable advantage would be that in any case foreign investors should look at the possibility of having partners not only of the country where they locate their plant, but from all five members, thus avoiding the strict nationalistic problem that is created in other areas.

Panama

Once a favorite site for controlling operations and marketing activities through much of northern Latin America, or the Grand Caribbean, Panama has been losing ground as CACM has gained importance. Panama is expected to join CACM eventually, as the current hostility from local businessmen subsides. Its excellent trading location, between the North and the South, with the key to join the Atlantic and the Pacific, will continue to make Panama a leading candidate for foreign investors establishing marketing facilities, if not for developing industrial plants.

Colombia

Very much unlike Mexico, this second LAFTA base on the Caribbean has little to offer foreign investors in the way of political and monetary stability. Colombia's main trouble is political. The unwieldy National Front, a coalition of the two leading parties (Conservative and Liberal)

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that alternates the presidency of the republic every four years (from 1958 to 1974) is facing a major crisis under the weak leadership of the incumbent Conservative government and the snares of leftist subversive moves to upset the country's institutions. Next year's election might restore bright prospects for renewed investment activity. It is expected that Dr. Carlos Lleras Restrepo will reconsider the withdrawal of his candidacy and accept to run. He will probably be elected as the country's next Liberal president, and through his strong leadership lead Colombia out of the economic tangles of the fast inflation it suffered during most of 1964 and 1965.

Venezuela

With a total of \$2.8 billion, Venezuela ranks first among the Latin American countries in United States investment, and third (after Canada and United Kingdom) in the whole world. The rich petroleum deposits are responsible for the vast majority (\$2.2 billion) of these investments, with Creole Petroleum, a subsidiary of Standard of New Jersey, leading the way. More than 300 United States firms have important investments in Venezuela, including United States Steel and Bethlehem Steel, in developing the rich iron deposits of the country. The most important non-United States investor is the Royal Dutch-Shell Group with vast investments in oil and real estate.

Besides the country's immense natural wealth in oil, iron, bauxite, and hydroelectric power, Venezuela has traditionally catered to foreign capital, with favorable official attitude, fast economic development, low taxes, and numerous incentives. The sketchy development plan of Venezuela calls for a growth rate of 8 per cent in 1965 and an estimated \$860 million investment in public work before 1968. President Raúl Leoni has committed the country to joint LAFTA, which it did during the meeting of Foreign Ministers (November 3-6, 1965), thus providing an additional inducement to foreign investors.

Puerto Rico

Puerto Rico is by far the largest single market among the islands of the Caribbean and, by virtue of its unique relationship with the United States mainland, boasts the largest amount of investment in manufacturing. The political and economic environment for direct investment is similar to that of the United States (i.e., the currency is the dollar, goods made in Puerto Rico are considered made in the United States, expropriation and other political risks are virtually non-existent, the banking system is the same as that in the United States, and so forth). But in some respects, investment here is more favorable as a result of special fiscal and monetary concessions that form part of the Commonwealth's industrial development program.

Under the stimulus of "Operation Bootstrap," as the development program was dubbed, and a benevolent attitude by the United States federal government, Puerto Rico has made rapid economic gains recently, albeit from a low base. GNP is estimated to have risen 238 per cent in the 15-year period ending in 1965. The five-year increase to 1964 was 51 per cent, when GNP reached \$2.5 billion. In terms of buyers, however, the expansion has been somewhat slower—the population grows at a rate of about 1.6 per cent per year, well under that of Latin America. Per capita income for the Commonwealth's 2.6 million people is about \$839, roughly 60 per cent of that of the state of Mississippi, the poorest in the United States.

The earnings of Puerto Ricans working on the mainland, which are remitted or brought back by the workers themselves, are a significant contribution to the purchasing power in the market. There is increasing evidence, however, of a reversal of this structure—Puerto Ricans are returning to the island, with their families, at a faster rate than they are leaving. This phenomenon has two important economic results: first, the already strained Commonwealth budget will have to find funds for an increase in public service, welfare, and education expenditures. Secondly, the newcomers will need jobs in a labor market that already has some 13 per cent of the labor force on the unemployment lists.

The economy of Puerto Rico has passed through two stages in its development process. The pre-Operation Bootstrap period was marked by limited manufacturing and industrial activity. The second stage, during the early part of Operation Bootstrap, saw an influx of mainland investors in plants requiring low capital to produce labor-intensive goods in an attempt to escape unions and high wages in the United States and to take advantage of the Commonwealth's rather generous tax concessions, which will be discussed later. These produced primarily for the mainland. Understandably, many of the new companies were marginal operations when they moved, and recently have folded quietly. By the same token, as the differential between island and mainland wages has narrowed, firms find this appeal of Puerto Rico diminished. Finally, some companies have found that the tax concessions, all things considered, were not as beneficial as was first thought.

Puerto Rico is now in the third stage, characterized by gradual reduction in the importance of the low-capital-to-labor manufacturers and an increase in industrial operations that requires relatively larger capital inputs and more highly skilled labor. This change is welcomed by both the mainland and Puerto Rican authorities. (The latter were never very happy with the unions' charge that investment incentives were designed to help "run-away" industry.)

Ford's decision to build a \$15 million ball-bearing plant was one of

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the first indications that the industrial base was markedly broadening. The big push, however, is apparent in the field of petrochemicals. Du Pont and Puerto Rico Chemical were among the first with plants to come on stream. The much advertised Phillips Petroleum refining project involves an investment of \$40 million, plus something on the order of \$10 million in satellite industries that would utilize the refinery's output of raw materials. In addition to investment opportunities in such satellite operations, there is substantial interest on the part of other major oil companies to copy the Phillips program. However, it and the other proposals are predicated on access to the United States mainland for goods produced from foreign petroleum, a concession not appreciated by United States producers.

It is interesting and important to note, however, that few companies not native to Puerto Rico have invested there to serve the island market. Virtually all have had their sights set on the mainland market. European and Canadian firms, for example, can penetrate the otherwise tariff-barricaded United States market, and receive tax and other concessions, by basing operations in Puerto Rico. Because of the distance to the prime market (the mainland United States) and because in many instances raw materials must also be transported to the Commonwealth, investments tend to concentrate in sectors in which a relatively high proportion of value is added in Puerto Rico. This may be expected to continue.

One of the greatest attractions that Puerto Rico offers manufacturing firms is its generous Industrial Incentive Act of 1963, which extended the original benefits of Operation Bootstrap. Eligible for the tax exemptions under this Act are all individuals, partnerships, or corporations engaged in: (1) manufacturing a product that was not produced in Puerto Rico before January 2, 1947; (2) manufacturing any of a list of consumer goods ranging from cigarettes and hosiery to motor vehicle bodies and paperboard and paper pulp; and (3) ownership or operation of hotels.

Expansion of tax-exempt firms also qualifies for tax exemptions if they constitute a separate industrial unit, or if the expansion involves at least \$1 million and the original investment was at least \$2.5 million and the expansion provides more jobs and contributes to the island's economic development. A firm seeking the exemption must file an application with the Industrial Tax Exemption Office in Puerto Rico and later attend a public hearing to support its application. Considerable assistance is usually given by EDA, and the entire procedure runs smoothly and rapidly.

Corporate tax incentives for qualifying firms are a tax holiday of 10, 12, or 17 years, depending on the location, and including 100 per cent exemption of income, real, and personal property taxes, license fees, and

excise and other municipal taxes. The 10-year waiver is granted if the plant is located in any of the following "high industrial development zones": San Juan, Bayamón, Caguas, Carolina, Catano, Guaynabo, and Trujillo Alto. The 17-years wavier is granted to firms locating in municipalities that are designated as "underdeveloped industrial zones": Aguadilla, Humacao, San Lorenzo, Aguada, Culebra, Jayuya, Las Marias, Barceloneta, Vieques, and Yabucoa. All others receive 12 years. Firms may choose to have the tax holiday start 2 years after commencement of operations.

The law also gives qualifying firms the irrevocable choice of reducing the benefits to 50 per cent of the tax exemption during twice the period of exemption, that is during 20, 26, or 34 years.

Dividends paid by a tax-exempt corporation are tax-exempt if paid to bona fide residents or to persons who are not taxed on such dividends outside of Puerto Rico. To non-Puerto Rican investors they are subject to a 15 per cent withholding tax instead of the normal 29 per cent tax. Capital gains from stock sales are made prior to the expiration of the tax exemption period. However, upon liquidation, any distributions of a Puerto Rican corporation to United States shareholders are subject to United States tax. After expiration of the tax exemption, a business may carry forward any net loss for 5 years.

Capital incentives are also available. The chief source is the Government Development Bank (GDB). It makes loans to new firms without a parent company guarantee, but secured by a mortgage on the industrial building or a chattel mortgage on equipment, or both. The rate of interest on these loans is 5 per cent when the industry is located in a 17-year tax-exempt zone, 5.5 per cent when located in a 12-year zone, and 6 per cent when in a 10-year zone. It will make 3 types of loans: improvement loans and building loans for 15-30 years in amounts up to 70 per cent of the appraised value of the buildings constructed or under construction; loans for machinery and equipment for up to 5 years in amounts up to 50 per cent of the appraised value of the machinery and equipment; and mixed loans whose terms and conditions are fixed case by case (frequently for 8 years in amounts up to 70 per cent of the appraised value of buildings and up to 50 per cent of the appraised value of the machinery).

The Puerto Rican Industrial Development Co. (PRIDCO), EDA's real-estate and financial arm, provides capital for firms that cannot meet standard banking requirements, making minority capital investments. It also makes long-term loans to joint ventures of foreign and local investors. The latter must have at least 50 per cent of equity, and must locate in underdeveloped areas. Terms go up to 90 per cent of assessed land and buildings, 75 per cent of equipment, and 50 per cent of working

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capital at an interest rate of 5.5 to 6.5 per cent. PRIDCO also constructs factory buildings according to specifications or in standard sizes of 11,500 and 23,000 sq. ft. of floor space. The standard-sized factories are built for leasing at rentals varying according to geographical location and type of buildings, from 50¢ to 95¢ per sq. ft., but, recently, the cost has been slightly increased and 10¢ per sq. ft. is added to standard rates for buildings under 11,500 sq. ft. Those built according to specifications are sold outright or in annual installments, but usually over a 10-year period, or plus the going rate of interest. Firms that want a building erected according to their own specifications put up a deposit of 5 per cent of the total estimated cost of the building before construction begins. In fiscal 1963 PRIDCO built 31 factory buildings and expanded 17 others at a cost of \$4.3 million, covering a total area of 635,163 sq. ft. A list of available standard-sized factories is published weekly and may be obtained from the EDA offices.

Tax and, up to a point, capital incentives are a shaky base on which to predicate an investment, as certain United States companies have recently found; this has resulted in plants closing for Sunbeam, Proctor Electric and Remington Rand. The usual manner in which business has been conducted is for the Puerto Rican subsidiary to manufacture a product and then sell it in the United States to the parent, which in turn markets it. To take full advantage of the lower Commonwealth taxes, it has been general practice to keep the price charged the parent as high as possible, thus generating profits in Puerto Ricò. The United States Internal Revenue Service has challenged this, and is demanding that the price be set by reference to an "arms-length" transaction. It is believed that the Service will strive to have only 10-20 per cent of the total profit allocated to the Puerto Rican operations (and tax jurisdiction) and 80-90 per cent to the mainland operation (and tax jurisdiction). The Service bases its demands on the premise that it is, in most cases, the parent's name and marketing system that is responsible for the sale, and that the Puerto Rican subsidiary is entitled to only a small manufacturing profit.

Finally, Puerto Rico is the site of several corporate regional headquarters (HQ). The Puerto Rican HQ's domain may cover all of Latin America or just the islands of the Caribbean. General Telephone and Electronics maintains a Commonwealth HQ to oversee not only Caribbean insular operations but also those of Central America. A major office-machine company services all of Latin America from Puerto Rico. The Commonwealth also serves as a base for the operations of Corning Glass, Frieden, Crown Zellerbach, Westinghouse Electric Co., SA, and a number of other Western Hemisphere trade corporations that are subsidiaries of United States companies. Among the advantages of a Puerto Rican HQ are no taxes on earnings from outside the island, only a 35

per cent on local income, and relatively good communications, although some firms find communications worsening rather than improving. And living costs are higher than in the United States.

The West Indies

Discounting the unique market offered by Puerto Rico, investment in the Caribbean West Indies is limited very much to Jamaica and the Minor Antilles, since the political conditions in the major countries of Cuba, the Dominican Republic, and Haiti rule out almost any new direct investment at this writing. All the Minor Antilles offer generous incentives to attract investors both for hotels and for manufacturing. In most of the British isles the tax rates are very similar: corporate income is taxed almost in every instance at a flat 40 per cent, while personal income tax faces a graduated scale rising from about 2.5 per cent to 70 per cent (see Table 3).

Incentives for pioneer industries usually include a 5-10 year tax holiday, duty-free imports of machinery and building materials, plus some assistance in establishing and occasionally in providing plant sites. Investors in the hotel business can get even better deals. In many cases, firms making their entrée into the area to perform major contracts have found as a by-product a viable market and convenient conditions to operate locally. Thus General Telephone and Electronics, while installing a large intercommunications system in Trinidad and Tobago was attracted to the local market by its potential and incentives and has established a successful assembly operation for the Sylvania television sets.

Jamaica

Jamaica has a market of some 1.7 million people with a 1964 per capita income just short of \$400. This market is enlarged by preferential access for Jamaican products to Commonwealth countries. Sugar, tourism, petroleum, and bauxite are the primary sectors of the economy. The political environment is relatively receptive to foreign investment, although there have been racial conflict and sporadic labor troubles. The labor force, with a significant portion presently unemployed, is reported easily trained and relatively well educated.

The island's industrial development program has taken the route of the light industry stage (the program was dubbed "Operation Shoulder Strap" because of the mushrooming brassière industry). Major companies in the traditional industries are Alcoa and Kaiser (bauxite), and Jersey Standard and Texaco (oil). Jersey Standard has branched into the wallboard business, utilizing bagasse from the sugar fields. Other manufacturing investors include Sterling Drug, Glidden Paints, United Dye and Chemical, Colgate Palmolive International, and Ludlow Corpo-

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TABLE 3
TAX RATES AND INCENTIVES OF SELECTED CARIBBEAN ISLES

TAXES			
	Corporate Income (%)	Dividends (%)	Personal Income (%)
Antigua	40	(1)	2.5 - 65.0
Barbados	40	....	3 - 75
Dominica	37.5	....	4 - 50
Grenada	40	....	5 - 65
Montserrat	33.3	....	2.5 - 75
St. Kitts	40	....	2.5 - 75
St. Lucia	33.3	....	2.5 - 65
St. Vincent	40	....	3 - 65
Trinidad & Tobago	42.5	....	5 - 90
Jamaica	40 (2)	12.5 (2)	12.5 - 37.5
Martinique & Guadeloupe	37.5 (3)	16	10 - 70
Netherland Antilles	27.6 - 34.5 (4)	....	2.6 - 43.7 (5)
Dominican Republic	10 - 38 (6)	8	3 - 40
Haiti	5 - 40	....	5 - 40
Virgin Islands (U. S.)	12	....	2.5 - 67.5

INCENTIVES			
	Income Tax Exemption (in years)	Exemption on Imports of Machinery (in years)	Others
Antigua	5 (7)	5	Assistance (8)
Barbados	10	10	" (10)
Dominica	5 (11)	5	....
Grenada	5 (11)	5	....
Montserrat	5	5	....
St. Kitts	5-10	5-10	....
St. Lucia	5	5	....
St. Vincent	5 (11)	5	....
Trinidad & Tobago	5 (11)	5 (12)	Tariff protection
Virgin Islands (Br.)	5	5	....
Jamaica	7 (13)	5	....
Martinique & Guadeloupe	8	....	(14)
Netherland Antilles	10	10	Free zone - 25-year
Dominican Republic	8	10 (16)	 exclusively (15)
Haiti	10 (17)	....	....

(1) The corporate income tax is passed on to the shareholder so that taxable corporate income and dividends are taxed only once for a total 40%.

(2) Dividends, interest, royalties, and other income received by non-residents are taxed at 12.5%. Since the withholding dividend tax is 37.5% non-residents can claim refund for excess tax withheld.

(3) There is also a 14% sales tax on value added, plus 8.5% turnover tax.

(4) Income up to \$53,000 is taxed at 27.6%, the excess at 34.5%.

(5) Rate for married person, decreasing as size of family increases. The rate for a single taxpayer rises from 2.7% to 45.9%.

(6) In addition there is a complementary (tax 3-70%).

(7) A 20% allowance of any capital expenditure (on building, acquisition, expansion, or machinery) is allowed during the first 5 years following such expendi-

ration. The government expects by the end of this year to have obtained firm investment commitments by 80 companies totaling \$30 million. British firms have successfully used Jamaica as a regional headquarters for Caribbean operations.

Trinidad and Tobago

This two-island country at the southern end of the Caribbean boasts a population of about 1 million with per capita income of an estimated \$525 in 1964. Its products enjoy preferential treatment in Commonwealth trade. Petroleum is the mainstay of the economy, accounting for some 80 per cent of foreign exchange earnings. Oil reserves are running out, and the success of Venezuela and Colombia in developing their own petrochemical industries suggests that the islands' petrochemical establishment will be hard put to sustain further growth based on imports.

Trinidad and Tobago's literate and easily trained labor force has aided the country's Industrial Development Corporation (IDC) in attracting industry. In the 6 years that IDC has been operating, almost \$100 million in new investment has been brought to the islands by 63 companies. Among these are Johnson & Johnson, Lever Bros., Genesco, Central Soya, Sterling Drug International, British Batteries Ltd., W. R. Grace, and Sylvania. The largest portion, by value, have received concessions under the Pioneer Industries Ordinance, which extends tax holidays generally of 5 years but in some cases 10, duty-free imports, and accelerated depreciation.

ture; and any loss suffered can be offset against profits of up to 6 following years.

(8) The Industrial Development Board gives limited help to private investors.

(9) Qualified firms may opt instead of the 10-year tax holiday for a 7-year tax holiday after relevant date which can be up to 3 years after the start of operations and enjoy a 67% exemption on the 8th year and a 33% exemption on the 9th year. Companies manufacturing for exports will pay only 12.5% income tax after the holiday expires.

(10) The Barbados Development Board offers consulting assistance plus generous facilities in plant sites.

(11) Hotels qualify for a 10-year tax holiday.

(12) Raw materials for local manufacturing may be imported duty-free by specific exemption from the Legislative Council.

(13) Various laws offer different incentives; the industrial incentives laws offer an option, the simplest alternative being a 7-year tax holiday, while the pioneer industries are permitted to set off the expenditures against profits.

(14) The 8.5% turnover tax is exempted for 15 years and some relief is given on the value-added tax.

(15) Firms locating in free zones enjoy duty-free benefits of free zones, pay only one-third of normal profit tax (until 1981) and may also qualify for incentives to pioneer industries. Large plants manufacturing a new product can obtain exclusive manufacturing rights for 25 years.

(16) This import duty exemption is only granted for 98% of the total tax, but is extended to imports of raw materials, and to the local consumption or sales tax.

(17) Total exemption is limited to 5 years, and thereafter a part of the income is taxed, rising from 15% on the 6th years to 80% on the 10th year.

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The Netherlands Antilles

These comprise a market of some 207,000 persons with an annual income—the highest in the area—approaching \$900, all within 393 square land miles, making it an interesting market, yet one that cannot support much more than minor industry. The authorities are fully aware of this fact and have attempted to make the islands a haven for export manufacturing.

At the base of the islands' economy and princely per capital income is the petroleum industry, led by Standard Oil Company (New Jersey) in Aruba and Royal Dutch Shell Group in Curaçao. The Jersey Standard investment now extends to calcium ammonia nitrate fertilizers that are exported throughout most of Latin America.

Income from petroleum plus contributions from the Netherlands in cash and culture are responsible for much of the islands' investment attractiveness. The labor force is highly educated. Despite an affinity for home rule, the people of the Antilles are relatively content with their "commonwealth" status under the Dutch Crown, and the political environment for private foreign investment is among the best in the area. Association with the EEC, which grants privileged status for all the Netherlands Antilles products but petroleum, effectively extends the market for the islands' output to the European continent while maintaining the advantage of neighboring raw material supplies in Latin America.

To date, and despite the substantial investment incentives available (including a 10-11 year tax holiday), most foreign non-petroleum investment has been concentrated in the tourist field. While there is substantial room for expansion in that field, profit opportunities should draw manufacturing investment in high-capital, high-skilled-labor industrial sectors seeking a politically secure base from which to operate. Curaçao and Aruba are also attractive sites for sales service headquarters for northern South America (only 10 per cent of earnings abroad are taxable) in view of their political and monetary stability and improved port facilities, free zones, and expanded jet air service.

Glenn C. Bassett: CURRENCIES

OF ALL THE AREAS IN THE WORLD, both developed and under-developed, the Caribbean area stands out for its consistent adherence to economic policies which have ensured monetary stability and stable exchange rates. While countries in other areas have had to debase their currencies because of inept or inappropriate government policies, the Caribbean area has enjoyed relative currency stability and solid economic progress. Indeed the area is currently experiencing one of the fastest economic growth rates in the world—and this is a direct by-product of its monetary stability.

Let us briefly look at the record and examine the extent of currency stability in the area, the reasons behind this stability, the actual results already achieved, and then consider the new currency arrangements that are on the horizon.

I

During the past 15 years, the following Caribbean countries have not had to make any significant change in the dollar value of their currencies: Guatemala, El Salvador, Nicaragua, Honduras, Panama, Haiti, and the Dominican Republic. In the case of western dependencies of European countries, the value of their currencies has been dependent on the value of the European country's currency, rather than on local conditions. Of the three major countries which did experience devaluations, the change in Costa Rica was relatively small, that in Mexico was in 1954 and stable conditions have since prevailed, and that in Venezuela was due more to political and external factors than to internal economic policies.

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In any event, the Mexican peso has recently been declared hard currency by the International Monetary Fund and has been made available for other countries to borrow, together with the United States dollar and many European currencies. And the Venezuelan bolívar is now backed by sizable foreign exchange reserves, the largest in Latin America.

In addition to stable rates, the Caribbean area has few multiple rate structures. The only country at present with multiple exchange rates is Venezuela, but the rate spread is much less than previously as the country is gradually attempting to establish a unified exchange rate.

It must be emphasized that the reason for general currency stability and unity in the Caribbean area is *not* exchange controls. The area is almost completely free of obstacles to the free flow of money to and from other countries. This free convertibility is one of its strong attractions for foreign traders and investors. Indeed almost all countries in the area have formally committed themselves not to adopt restrictions on payments for foreign goods and services.

The basic reason for the stable currencies is, of course, the stable internal monetary conditions of the Caribbean countries. Looking only at the Latin American republics, we find during the past 15 years annual price increases of under $2\frac{1}{2}$ per cent for almost all the countries. The only exceptions were Nicaragua and El Salvador, both of which have had little price rise since 1955, and Mexico, where prices have increased under 4 per cent during the last five years—still much less than in most other Latin American countries.

Absence of domestic inflationary pressures has also helped strengthen the area's imports and attract foreign capital, and this in turn has helped bolster the exchange rate of the currencies in the area. Since 1949, the area's foreign reserve holdings have jumped from \$690 million to \$1,650 million in 1964. While much of this increase is accounted for by Mexico and Venezuela, there was a sizable expansion for almost every country in the area, with record levels achieved in Nicaragua and El Salvador. These large reserves mean that the countries in the area will be able to maintain the value of their currencies in the face of periods of temporary difficulties.

The net result of all these factors—stable currencies, low inflation, minimum exchange controls, stable and unified exchange rates, inflow of foreign investments—has been to accelerate the area's over-all rate of economic growth. Caribbean-wide growth figures are not available, but data on individual countries indicate the good growth record: last year, Mexican economy grew by 10 per cent in real terms; Venezuela by $7\frac{1}{2}$ per cent; and the member countries of the Central American Common Market by between 6 and 9 per cent. These substantial growth rates are a tribute to the area's sound economic policies.

In terms of the future, there is a good possibility for the creation of a common currency in Central America—a Central American peso. This could result from the current efforts towards regional economic integration of the area, which have already borne fruit in the establishment in 1960 of CACM, with five member countries so far. Panama's membership in the CACM is being discussed. A common currency would facilitate trade for a variety of reasons. Just consider that businessmen now operating in Central America have to cope with the problems of marketing, pricing, and extending credit in various currencies in addition to assuming the costs and risks involved in currency conversions. A single currency would eliminate all these difficulties and facilitate the movement of goods and capital within the area.

II

Provisions tending to promote monetary and exchange stability have already been incorporated in the multilateral treaty on free trade and Central American economic integration signed in Tegucigalpa on June 10, 1958. Basically, the treaty provided for cooperation between the five Central banks in the region, as regards balance of payments problems which might affect free trade between the contracting parties.

This declaration of intent has already been implemented by an agreement for the establishment of a Central American Monetary Union, which was signed in San Salvador on February 24, 1964, by the heads of the five Central banks. A Central American Monetary Council has been created along with a committee for consultation and action and an executive secretariat. Although so far the work has not progressed from the study phase, all the Central banks have assigned staffers to this work, thus evidencing the seriousness of the effort.

Parallel to all these steps towards an effective monetary union is the functioning of the Central American Clearing House, which commenced operations as of October 1, 1961. The main purpose of the Clearing House is to promote Central American trade by facilitating the settlement of balance among the countries. It thus encourages the use of Central American currencies and eliminates exchange commissions. Operations of the Clearing House are conducted in terms of a Central American peso, a unit which is equivalent to one United States dollar. According to the regulations of the Clearing House, the parties agree to use this unit of account for the conversion of national currencies into pesos at a stated local currency parity. In addition, the Central Banks guarantee the convertibility of their Clearing House balances into United States dollars. The banks have also agreed to allow debit balances to reach a total to all the members of up to \$500,000. These credits are utilized to

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settle balances resulting from current account transactions, which fluctuate over a period of time. However, member banks require reimbursement.

The system has worked remarkably well, and in August, 1963, the Bank of Mexico entered into a special arrangement with the Central American Clearing House for the clearing of transactions between the Bank of Mexico and the Central American Banks. Currently, the Clearing House is compensating around 85 per cent of visible Central American trade.

As a matter of interest, the Clearing House has also facilitated the entry into the market of an interbank instrument known as the Central American Check, which is similar to a cashier's check in that it is drawn by a Central Bank in terms of its own currency and sold without an exchange commission. The Banking Commission is standardized at $\frac{1}{4}$ of 1 per cent with a maximum of Central American pesos (\$25). This check has simplified payments among Central American countries by providing the public with an instrument which is readily acceptable at all banks and can be cashed at face value without any deductions.

III

Now we might round off our discussion by taking a look at what may develop at a later stage. Conceivably there are two ways of obtaining a meaningful monetary union in Central America. The first would be the issuance by each country's central bank of monies of identical value and appearance. This money would constitute an obligation of the individual central banks. The other approach would be to create a common Central Bank of Issue which would assume the monetary functions of the central banks by gradually issuing new currency or through immediate conversion of all existing money into the new money.

There are pros and cons to each method, as well as many technical details involved. If the first course of action is followed, the new coins and paper money would all have to bear identifying marks of the bank of issue. This requirement would act as a check against over issuance of money by any one country as all monies received by the Central Bank other than that of its own issue would be set aside and returned to the issuing bank for credit. The latter, in turn, would be the only bank authorized to return this money to circulation. Such a system would thus prevent any country from taking undue advantage of the monetary union by purchasing goods and services from the other members through the expedient method of printing money, simply because such actions would place the country in an ever increasing debtor position within the union.

This approach presupposes several conditions. First, it assumes identical foreign exchange regulations as otherwise the money would flow from the countries with stringent regulations to those with no controls. Secondly, it requires very close coordination of fiscal and monetary policies because the currency of a country experiencing inflation or balance of payment difficulties might not be accepted at par by the public and bought or sold at a discount, thereby undermining the effectiveness of the union.

Third, it necessitates some system by which financial support will be available to a country whose currency is under strain due to economic difficulties. This can be provided through the creation of some sort of a stabilization fund, but the problem is complicated by the fact that in many cases such difficulties arise from export problems which tend to affect the region as a whole due to the similarity of the agricultural exports of the countries involved. In any case, the creation of a fund would also be helpful as a tool to force a recalcitrant country to adopt the necessary fiscal and monetary policies, as otherwise it may well find the fund's doors closed. The issuance of Central American money by the various central banks may be feasible from a practical point of view because it does not involve the relinquishing of the power of issue to a supranational entity. It is not perfect in form as there would still exist different kinds of "peso," i.e., those issued by a strong central bank and those issued by a weak one, but still it could provide for an orderly transition into a real common currency.

The second approach involves the issuance of pesos by a Central American institution which would assume the corresponding liabilities and would have resources to back up these liabilities. Such resources would have to come from a pooling of reserves of the various central banks. These reserves may be payable in any agreed proportion of gold, foreign exchange, and local currency, the Central bank to receive in return an equivalent amount of Central American pesos. The size of the subscription would, of course, have to be related to such factors as available foreign exchange, gold, existing money supply, population, and others.

Presently, the ratio of gold and foreign exchange of the five Central American republics to the total available money supply is of about 50 per cent and this, if maintained, would provide for a strong Central American peso. A 100 per cent backing of gold and foreign exchange would certainly tie the whole monetary system to the availability of gold and foreign exchange leaving the Central Bank little or no flexibility to conduct its monetary policy. In such a situation the balance of payments position would then dictate whether monetary expansion or contraction would take place, not to mention the fact that a sizable portion of for-

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eign exchange, much needed for the importation of capital goods, would then be sterilized. Later on when the impact of the new currency has been gauged and the level of confidence tested new subscriptions containing a lesser proportion of gold and foreign exchange could be authorized.

Naturally, ceilings would have to be placed on the amount of pesos that each country could buy from the Central Bank and regulations would be needed in order to fix the interest rates that the various banks would pay on their own currency notes. This second method presupposes that the system will be implemented in stages and that a transitory period would take place where both Central American pesos and local currencies will be available. This incidentally might be the best way to put the system to work as it could provide an automatic control against overissuance of local currencies by any of the central banks, since this would increase the demand for Central American pesos and the local currency would depreciate in terms of the Central one.

All of this, however, is only a glimpse of the future. It appears evident that even in developing economies where protected industries and vested interests are not of the size that are found in some of the more developed countries, it is still a very difficult task to obtain monetary policy co-ordination. However, if there is one area in the world where this aspiration has a good chance of success it is in Central America. Public awareness of this problem exists and competent central bankers are willing to work in order to obtain a reasonable solution.

I sincerely expect to see them succeed in their efforts and believe that this effort will bear fruit and will result in Central America becoming one of the fastest developing regions in this hemisphere. And a successful monetary economic union in Central America might be an example of what is possible in other Caribbean areas.

H. W. Balgooyen: INFLATION

I AM SURE you will agree that inflation is the arch enemy of the developing countries, including many of our Latin American neighbors; and I shall try to suggest some answers to these three questions: what it is; where it is going; and what it is all about. And, finally, I shall give you the best answers I have been able to find to the most difficult question of all: what can be done about it?

I

Inflation is an archdevil. Most everyone claims to be against it these days—officially, at least; but most everyone welcomes it in its early stages; and he doesn't like to be reminded that, sooner or later, he will have to pay for it. Conceding that inflation has many faces and many definitions, and that it isn't always recognized for what it is, I still like the definition which I learned in my first elementary course in economics: "Inflation is an economic phenomenon which occurs when the supply of money—or the means of payment—increases faster than the supply of goods."

We hear a great deal these days about "structural inflation," "cost-push inflation," or "wage-pull inflation," or simply "price inflation." But when we come right down to it, these are all a function of the supply and demand for goods and the means to acquire them. They all assume that rising prices are conclusive evidence of, or are synonymous with, inflation; and, conversely, that stable prices are conclusive evidence of the absence of inflation. But, according to Professor Haberler, "stable prices are not sufficient criteria for the absence of inflation"; and Dr.

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Bernstein, after referring to the contention of Thomas Tooke that any rise in prices constitutes inflation, points out that when production increases sufficiently, a moderate rise in prices is only functional; but when prices rise considerably, without much increase in production, the rise is inflationary.

We also hear such expressions as "credit inflation" and "monetary inflation," which, of course, are only descriptions of the manner in which the means of payment are expanded.

As for "structural inflation"—a phrase quite popular among economists influenced by the Economic Commission for Latin America (ECLA)—I am inclined to agree with Professor Machlup when he says that this is "a phrase and a theory serving as an excuse for the politicians responsible for the inflations in certain developing countries. It is true, of course, that conditions in some countries make it difficult to finance large-scale investments in any other way but through inflation, and impossible . . . to get elected except on programs too ambitious to be financed without using the printing press." But, Machlup points out, "these inflations do not grow out of the soil nor do they fall from heaven. They are decided upon and arranged for by men in charge of fiscal and monetary policies—and they can be avoided if these men have the courage to resist pressures and temptations."

Perhaps, before leaving this discussion of definitions and varieties of inflation, I should also comment on such expressions as "imported inflation" and "exported inflation," which are especially popular these days with European critics of Uncle Sam and his economic policies. These critics contend that, because of the deficit in our balance of payments, European Central Banks acquire additional gold and dollar reserves which, in turn, lead to expansion of the money supply which cannot be counteracted by the Central Banks, with the result that their inflation bears the label "Made in USA." At the Tokyo meeting of the International Monetary Fund, Douglas Dillon answered this charge by stating that, since the United States had had practically no inflation in recent years, he didn't see how it could have exported what it didn't have.

Of course, the answer is not quite that simple. It cannot be denied that the United States deficit in recent years has had some inflationary effects abroad. Furthermore, the United States has urged foreign countries to reduce interest rates—an inflationary policy from their viewpoint; but this has been suggested as a means for avoiding the attraction of too much United States capital. Furthermore, as Haberler has pointed out, the majority of the people in the countries concerned have not strenuously objected to the inflationary boom, whether or not we were responsible for inflicting it upon them. At any rate, as I shall show later on,

the ultimate responsibility for creating and tolerating a continuing inflation lies at the door of government policy as implemented by the monetary authorities. Inflation, however it is packaged, is a homemade product and is not imported from other countries.

II

So much for what it is; now for where it is going.

In some countries, it has seemed to be going through the roof. However, I am not going to recite all the dreary details of the history of inflation in Latin America. Suffice to say that, among the countries suffering from hyperinflation, the cost of living—one of the best measures we have of the impact of price inflation—has risen since 1954 by 1,200 per cent in Argentina; 1,300 per cent in Bolivia; 3,800 in Brazil; 1,700 per cent in Chile; and 800 per cent in Uruguay. When we consider these figures alongside the average rise of 1.4 per cent in the cost of living index in the United States during the past five years, Douglas Dillon's contention that we have had no inflation in recent years falls into perspective.

Now let us look at the other side of the coin, since continuous increases in the cost of living—in the absence of compensating increases in production—tend to be reflected in depreciation in the international value of the currency or increase in the cost of dollar exchange (Table 1). Since 1954, the cost of dollar exchange, as measured in local currency units, has increased about 1,100 per cent in Argentina, 500 per cent in Bolivia; 2,300 per cent in Brazil; 1,000 per cent in Chile, and 1,700 per cent in Uruguay.

I am sure that none of you needs to be convinced that such an extreme and continuous rise in price levels and such a spectacular erosion in currency values is bad from almost any viewpoint—except, perhaps, that of speculators and smugglers and other types whose good fortune depends upon the misfortune of others.

Inflation, of course, was not always in bad odor, particularly in Latin America, where there was an economic school—particularly vocal in Brazil—that held that inflation—even a rampant inflation—was not only good, but was essential for an underdeveloped country aspiring to rapid economic growth. I have a Brazilian friend of long standing, an economist by profession, with whom I used to argue this point far into the night. For many years, the burden of proof was on me, for Brazil seemed to be defying every economic law and precept and, apparently, was getting away with it.

From 1954 to 1961, for example, Brazil's gross national product (GNP) increased more than 50 per cent. Even on a per capital basis, gross

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domestic product (GDP) increased at an average rate of 2.9 per cent. In 1962, inflation really took off, with the cost of living rising by over 60 per cent but the GDP still recorded a 2.4 per cent increase per capita. Early in 1963, I saw my Brazilian friend again. He was not his usual ebullient self. In fact, I had never seen him more depressed.

"The combination of bad government and inflation," he said, "is ruining my country. I don't think we can stand another year of it without a complete economic breakdown which, I believe, would lead to a Communist take-over."

"But," I asked. "what happened to your theory that inflation is good for a developing country?"

"That was while I still thought that it could be kept within reasonable bounds," he replied.

"And how about your rate of economic growth which you are always citing to me?"

At that, he shook his head and said, "Just wait until you see the figures for this year—and for next year if we last that long." The figures for both 1963 and 1964 showed, of course, a negative growth rate of 1½ per cent per capita.

Today, the ranks of true believers in the theory that rapid inflation is essential for rapid economic growth are thin, indeed. Studies published by the International Monetary Fund, the Federal Reserve Bank, various committees of the United States Congress, the Inter-American Committee of the Alliance for Progress, and many independent economists have demonstrated the fallaciousness of this assumption.

One of the strongest and most concise indictments against inflation as a way of life appeared in the May, 1964, report of the Joint Economic Committee of the United States Congress, and I quote:

The most insidious and destructive of all forms of expropriation is monetary inflation in the extreme forms which have characterized some of the Latin American republics. It is insidious, because it overtakes a nation so easily; steals—or "taxes"—so quietly; and produces a temporary glow that suggests prosperity. It is destructive, because it . . . hits indiscriminately without recourse or appeal, sparing the unjust at the expense of the just while driving scarce resources along unsound paths and in wrong directions.

Private investment presupposes two things: first, an act of saving by someone, either local or foreign . . . ; and, second, faith on the part of the investor. Inflation and the threat of chronic inflation are enemies of growth by striking at both of these preconditions. When it becomes a way of life, inflation discourages savings; erodes the value of investments; drives capital in search of inflation shelters rather than in search of productivity; makes unused land a "good investment"; encourages flight of savings and capital into more stable currencies; diverts the

energies of enterprises into trying to outguess the whimsies of those in charge of monetary printing presses; accentuates political instability by its inequalities and injustices; fosters economic inefficiencies; feeds on itself by nullifying attempts at sound government budgeting; and finally, inhibits sound growth in one or all of these ways.

All of these points are made in the policy statement of CIAP on "The Situation of the Alliance for Progress and Prospects for 1965," which discusses the role of inflation in inhibiting sound economic growth. "Inflation," it says, "is restricting and distorting the use of resources in Latin America and endangering the objectives of the Punta del Este Charter." The case against inflation, as seen by CIAP, not only includes the various charges leveled by the Joint Economic Committee but adds a few additional or related ones. For example: "Inflation discourages exports by leading to over-valued exchange rates. It restricts and increases the cost of borrowing from abroad. It leads to unsound industrial pricing policies, since businessmen are obsessed with the need to hedge against the next round of inflation. It hits hardest at the poorest sections of the population which have the least ability to protect themselves by hedging against price increases."

III

This all adds up to such a devastating indictment of inflation as to lead one to wonder why anyone should ever have seen any merit in the inflationary theory of development, and whether the experts may not now be overstating the case against it. In an effort to find an acceptable answer, some figures appear in the tables at the end of this chapter.

I always feel like apologizing when I resort to statistics in support of any thesis concerning Latin America. The compilation and dissemination of statistics in Latin America is anything but an exact science, and I must concede that, in quoting statistics on the per capita GNP of Bolivia, for example, neither I nor anybody else knows for sure how many people there are in Bolivia or what half of them are doing. Nevertheless, the figures from Latin American sources as compiled by such agencies as the International Monetary Fund (IMF), ECLA, and the United States Department of Commerce, are all that we have to go by.

My figures, covering the past ten years, and taken, in the main, from IMF publications, tend to support the following general conclusions.

1. Countries which had the highest rates of growth—Mexico, El Salvador, Guatemala, Venezuela, Peru, and Panama—had the least inflation.

2. Countries which had the most inflation tended to have the lowest growth rates—Argentina, Bolivia, Uruguay and, Paraguay; or unsatisfactory growth rates—Colombia and Chile.

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3. Some countries which, for a time, had satisfactory rates of economic growth, despite inflation, suffered declines as inflation accelerated—Argentina, Brazil, and Uruguay. The fact that this was not true of all countries, at all times, indicates that it is the *persistence* of inflation, rather than the *incidence* of inflation, which does the most damage.

4. In all countries suffering from hyperinflation, with the exception of Argentina and Uruguay, the supply of money increased faster than the cost of living—apparently because there was a partially compensating increase in production. (Both Argentina and Uruguay, of course, are conspicuous among the countries where production has stagnated during most of the past decade.)

5. All countries, without exception, which suffered from hyperinflation had chronic budgetary deficits, ranging to over 50 per cent of revenues in the case of Argentina.

On the other hand, I would have to concede that some of the countries that experienced little inflation also had several years of large budgetary deficits, notably Mexico, Peru, and Venezuela; but these deficits did not persist for a long period of years; and these same countries did have compensating increases in production, as indicated by the fact that they were among the leaders in growth of GNP.

So, statistically, and making due allowance for deficiencies in the data, the figures for the past ten years do support the conclusions of the experts I have quoted as to the adverse effects of prolonged inflation on economic growth.

As to short periods of inflation, brought on by abrupt shifts in international payments balances or temporary imbalances in the economy, the case against inflation is not at all clear; and the same can be said of creeping inflation—the kind we have had for many years in the United States. So far as Latin America is concerned, however, I am inclined to go along with Leon Henderson who, I believe, was the originator of the cliché that “a little inflation is like a little pregnancy.”

To sum up the story told by the figures:

1. There is, in general, an inverse relationship between inflation and economic growth.

2. While inflation, in the early stages, may stimulate economic growth, as the inflationary spiral persists, economic growth slows down or goes into reverse.

3. In nearly every case, high rates of inflation are accompanied by, or are preceded by, sharp increases in the money supply and large government deficits.

IV

So much for what it is; where it is going; and what it is all about. Now, what can be done about it?

First of all, let me say that the problems of combatting inflation rest

largely with governments, since government policy is the prime engine of inflation. The problems that governments have in dealing with inflation are complicated by the fact that, as pointed out by Professor Lutz, nations, these days, are bound to follow several aims at once. They are concerned not only with maintaining a measure of price stability but also balance of payments equilibrium, full employment and—most importantly for the developing countries—with attaining and maintaining an “appropriately” high rate of growth; and successful action toward one objective can well jeopardize one or another of the policy aims.

Since government policy in Latin America must accord highest priority to promotion of rapid economic growth, these governments are inevitably and immediately concerned with the inadequacy of local savings. An understanding of how and why this results in inflation is essential to the development and implementation of any disinflationary program. I have pointed out that inflation can be a *cause* of inadequate savings but, particularly in Latin America, it can also be a *result* of the inadequacy of local savings to meet the investment requirements of rapid economic growth.

As Dr. Bernstein points out in an excellent treatise on “Inflation in Under-Developed Countries” published some years ago, because savings in these countries are limited, there is a strong temptation to inflate by expanding bank credit, borrowing from the Central Bank or running the printing presses. Pressure on the monetary authorities to expand the means of payment comes from various sources—from businessmen, from labor, and, of course, from the government itself. As Bernstein shows, inflation is initiated when any sector of the economy attempts to secure a larger share of the national output than the normal functioning of the economy will provide for it.

Businessmen, of course, seek bank credit for many purposes, including the financing of business expansion and new investment which are essential in a growing economy; however not only business but also government and labor may try to secure a larger portion of the output of the economy, and the basic framework is provided for the inflationary process: aggregate demand, for all purposes—consumption, private investment, and government spending—exceeds the supply of goods at current prices. Consequently, prices rise, wages rise, demand for goods increases, and credit again is expanded to provide for still more investment. Thus, we have the classic inflationary spiral.

Obviously, the inflationary spiral could not continue to operate unless the monetary authorities *permit* or *cause* the supply of money to increase rapidly enough to finance production at the rising level of cost and prices. The government budget, accordingly, is increased, with expenditures exceeding revenues; and the resulting deficit is covered by bor-

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rowings—mostly from the banking system, since the public is unable or unwilling to buy government securities or otherwise provide sufficient funds to meet the deficit. Demands then are made upon the Central Bank to lend directly to the government and to increase the reserves of the banking system through rediscounts, advances to the banks, or by purchase of their holdings of government obligations. Thus, the Central Bank becomes a partner in the inflationary process. The monetary authorities, of course, can further expand the supply of money by lowering reserve requirements or by tinkering with exchange rates. Maintenance or roll back of the inflationary spiral, therefore, becomes largely a matter of government policy.

This also is true if business demand for credit seems to be the villain in the piece. Businessmen borrow from the banks; the banks borrow from the Central Bank by discounting commercial paper; and the Central Bank issues additional currency, thus supplying the fuel to feed the fires of inflation.

When either business, or government, or both, make excessive demands on the monetary supply to finance investment or to increase their share of the total output, it hardly can be expected that labor will willingly refrain from making its own demands; but labor seldom succeeds in increasing its proportionate share of the national product, since real wages can rise only if there is a more-than-compensating rise in production of consumers' goods. If price controls are imposed in such a situation, they only accentuate the problem, since they lead to decreased production and less demand for labor.

This is the reason that some economists hold to the belief that rapid economic development, dependent, as it is, upon the diversion of resources into investment and production, requires labor acquiescence or the imposition of wage controls; and this is why some experts believe that the first step in halting the inflationary spiral—to which business, labor, and government all have contributed—is to restrict the demands of labor. This was the thesis of the Klein and Saks mission to Chile whose recommendations were successful, for a time, in slowing down the inflationary spiral following the disastrous inflation which resulted in an 84 per cent increase in the cost of living in 1955. In this particular case, it was contended that Chilean labor, through union pressures, actually had overcompensated in wages and fringe benefits for the previous rise in prices.

Brazil now is engaged in a many-sided attack on its inflationary spiral, in which reduced government spending, exchange stabilization, credit restrictions, reduction of subsidies, abolition of price controls, restriction of wage increases, and inducements to businessmen to hold the line on prices or actually reduce them, all play a part. This cam-

paign, which had the immediate effect of raising prices for many necessities of life besides triggering the business recession has not enhanced the popularity of the government. Consequently, the Administration recently found it necessary to take additional steps to tighten its control over Congress, the Judiciary, and the electoral process to assure continuity in its economic program which is beginning to show some constructive results. Not only has the rate of inflation been reduced, but also business activity again is on the upswing, thanks partly to the resiliency of the Brazilian economy and, importantly, to some very ingenious measures instituted by Brazil's very able Minister of Planning, Roberto Campos.

Dr. Campos has an excellent article in the latest issue of *Progreso* in which he explains his choice of "gradualism" rather than "shock treatment" in waging Brazil's battle against inflation. Gradualism, he says, consists of three stages: the corrective stage, the disinflationary stage, and the stage of return to equilibrium. Brazil, he says, is only in the beginning of the second stage. He goes on to describe the economic, social, and political pressures that must be resisted by the government, and points out, significantly, that only a strong government, able and willing to withstand the inevitable unpopularity and resist the political pressures, can succeed in this struggle.

Actually, despite all that has been written about the requisites for a successful fight against inflation, there is little to go by in the way of empirical evidence, so far as Latin America is concerned. Chile's anti-inflationary program of the mid-1950's was only temporarily effective; the returns are just beginning to come in from Brazil's effort; the present governments of Argentina and Chile are committed to economic recuperation programs which include a rollback of inflation but their struggle with inflation has scarcely begun; the Bolivian stabilization program of 1957 succeeded in stabilizing the exchange rate, but not the price level, which has since increased some 70 per cent. So all that we can prove by the statistical evidence of the past decade is that countries which had inflation at the beginning of the period still have it; some countries, which started out well, have fallen into evil ways; and such countries as Ecuador, Venezuela, and the Central American republics have consistently maintained a stable price level.

At any rate, to quote Dr. Bernstein again, "Stabilization is a very difficult, painful and politically obnoxious process." Government officials, businessmen, and labor become conditioned to inflation and to the distortions which inflation produces. Both Campos and Bernstein emphasize the importance of eliminating these distortions. As stabilization policies begin to take hold, money and credit are more difficult to come by. Some industries and investments have to be deflated and other industries,

SELECTED ECONOMIC INDICES FOR VARIOUS LATIN AMERICAN COUNTRIES 1954-1965
(1954 = 100)

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
<i>Argentina</i>												
1) Cost of living*	100	108	125	158	237	479	536	638	842	1,069	1,261	1,347 (May)
2) Money supply	100	118	137	160	229	328	421	469	482	621	885	967 "
3) GNP (real terms)	100	110	110	115	121	115	122	129	125	118	127	110 "
4) Rate of exchange†	100	258	268	265	501	595	592	594	959	948	1,079	1,227 "
<i>Bolivia</i>												
1) Cost of living	100	168	963	828	985	1,084	1,203	1,287	1,326	1,299	1,416	1,408 (June)
2) Money supply	100	204	719	1,063	1,097	1,407	1,528	2,029	2,931	2,922	2,926	2,922 "
3) GNP (real terms)	100	100	101	101	102	102	102	107	112	119	126	110 "
4) Rate of exchange	100	225	411	453	631	629	629	629	629	629	629	629 "
<i>Brazil</i>												
1) Cost of living	100	117	149	171	210	298	393	566	917	1,660	3,088	3,934 (July)
2) Money supply	100	118	144	193	234	332	458	690	1,127	1,849	3,438	4,523 "
3) GNP (real terms)	100	106	109	116	125	134	120	152	161	164	167	167 "
4) Rate of exchange	100	88	86	119	182	268	270	419	625	816	2,434	2,434 "
<i>Chile</i>												
1) Cost of living	100	163	252	295	389	517	543	597	764	1,108	1,540	1,793 (May)
2) Money supply	100	284	228	289	389	516	674	758	975	1,311	2,154	2,268 "
3) GNP (real terms)	100	104	108	112	116	120	124	128	136	138	144	144 "
4) Rate of exchange	100	200	190	245	356	....	....	....	768	965	1,035	1,162 "
<i>Colombia</i>												
1) Cost of living	100	102	109	135	144	151	162	170	179	261	269	282 (May)
2) Money supply	100	104	129	146	177	197	216	269	326	364	438	440 "
3) GNP (real terms)	100	104	108	110	112	112	126	132	139	149	132	....
4) Rate of exchange	100	119	196	178	235	200	207	252	317	285	365	492 "
<i>Ecuador</i>												
1) Cost of living	100	98	97	95	95	95	98	101	106	110	113	118 (June)
2) Money supply	100	94	107	111	110	124	136	140	157	176	196	184 "
3) GNP (real terms)	100	103	106	111	115	120	127	130	136	142	148	....
4) Rate of exchange	100	100	108	95	96	97	101	125	127	106	106	108 "
<i>El Salvador</i>												
1) Cost of living	100	101	104	98	101	100	100	96	98	100	100	100 (July)
2) Money supply	100	103	117	117	110	112	105	101	101	121	127	125 "
3) GNP (real terms) (1)	....	....	....	....	....	....	100	108	118	124	136	....
4) Rate of exchange	100	100	100	100	100	100	100	100	100	100	100	100 "

SELECTED ECONOMIC INDICES FOR VARIOUS LATIN AMERICAN COUNTRIES 1954-1965

(1954 = 100)

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965
<i>Mexico</i>												
1) Cost of living	100	117	115	131	141	141	152	149	152	152	158	164 (May)
2) Money supply	100	120	133	142	152	176	192	205	232	270	317	298 "
3) GNP (real terms)	100	109	116	125	132	135	146	151	139	169	185	 "
4) Rate of exchange	100	100	100	100	100	100	100	100	100	100	100	100 "
<i>Nicaragua</i>												
<i>Panama</i>												
1) Cost of living	100	125	148	170	175	191	218	....	....	....	....	.... (June)
2) Money supply	100	133	181	187	223	244	250	317	309	344	418	451 (June)
3) GNP (real terms)	100	107	106	113	119	119	121	128	129	134	138	 "
4) Rate of exchange	100	108	179	176	176	193	199	199	199	199	199	199 "
<i>Peru</i>												
1) Cost of living	100	104	110	118	129	155	169	181	190	209	234	258 (April)
2) Money supply	100	106	125	130	139	173	195	231	239	267	312	319 "
3) GNP (real terms)	100	103	106	110	111	116	130	142	153	158	166	 "
4) Rate of exchange	100	100	100	100	129	146	141	141	141	141	141	141 "
<i>Uruguay</i>												
1) Cost of living	100	109	116	137	164	239	325	358	397	572	772	967 (June)
2) Money supply	100	105	119	125	164	235	307	374	378	487	759	 "
3) GNP (real terms) (2)	....	100	102	104	101	100	101	104	101	100	102	 "
4) Rate of exchange	100	115	119	147	321	352	347	345	345	546	770	1,855 "
<i>Venezuela</i>												
1) Cost of living	100	98	99	100	102	106	108	109	107	108	106	109 (June)
2) Money supply	100	111	127	168	185	176	165	170	166	179	204	312 "
3) GNP (real terms)	100	109	120	134	136	147	149	151	161	168	180	 "
4) Rate of exchange	100	100	100	100	100	100	100	137	136	136	134	100 "

Sources: *International Financial Statistics*, International Monetary Fund; *Statistical Bulletin for Latin America*, Economic Commission for Latin America; *Fortnightly Review*, Bank of London & South America.

*Cost of living—end of period data.

†Rate of exchange—units of local currency per US\$

(1) 1960 = 100

(2) 1955 = 100

GOVERNMENT FINANCES 1954-1964

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
<i>Argentina</i> (billions of pesos)											
Revenue							85.2	109.3	101.8	128.4	131.3
Expenditure							105.3	131.8	150.6	189.6	286.6
Balance							20.1	-22.5	-48.8	-61.2	-155.3
<i>Bolivia</i> (millions of pesos)											
Revenue						285.8	303.9	383.0	434.1		
Expenditure						452.8	454.1	520.3	551.5		
Balance						-167.0	-150.2	-137.3	-117.4		
<i>Brazil</i> (billions of cruzeiros)											
Revenue	49.1	57.1	67.3	76.4	102.0	157.8	219.8	317.5	497.9	930.3	1,889
Expenditure	50.3	64.7	92.0	114.8	130.4	198.3	296.4	455.0	778.8	1,435.0	2,617
Balance	-1.2	-7.6	-24.7	-38.4	-28.4	-40.5	-76.6	-137.5	-280.9	-504.7	-728
<i>Chile</i> (millions of escudos)											
Revenue	63.5	122.8	202.9	307.9	376.2	570.0	707.5	784.6	957.5	1,353.8	2,039.3
Expenditure	68.6	128.6	224.5	340.3	420.4	638.4	839.4	930.7	1,186.4	1,589.9	2,415.4
Balance	-5.1	-5.8	-21.6	-32.4	-44.2	-68.4	-131.9	-146.1	-228.9	-236.1	-376.1
<i>Colombia</i> (millions of pesos)											
Revenue	906	1,250	1,190	1,312	1,616	1,833	1,982	2,022	2,306	3,069	3,847
Expenditure	1,015	1,390	1,385	1,142	1,481	1,724	2,092	2,619	3,181	3,433	4,241
Balance	-109	-140	-195	170	135	109	-110	-597	-875	-364	-394
<i>Ecuador</i> (millions of sucres)											
Revenue	998	1,092	1,050	1,254	1,288	1,256	1,363	1,565	1,623	1,844	2,556
Expenditure	1,072	1,237	1,240	1,237	1,217	1,333	1,740	2,081	1,878	2,110	2,917
Balance	-74	-145	-190	17	71	-77	-377	-516	-255	-226	-361
<i>El Salvador</i> (millions of colones)											
Revenue	186.8	173.6	183.7	211.2	182.4	169.9	182.4	174.7	185.9	192.2	
Expenditure	164.5	156.8	183.4	196.7	198.3	185.8	176.4	192.7	261.9	195.9	
Net Lending	3.6	1.7	6.5	11.2	6.7	6.5	3.7	-14.7	.2	.6	
Balance	18.7	15.1	-6.2	3.3	-22.6	-22.4	2.4	-3.4	-16.2	-4.3	
<i>Mexico</i> (millions of pesos)											
Revenue	5,573	7,644	8,409	9,493	8,814	9,588					
Expenditure	6,020	6,967	8,022	8,849	9,770	10,073					
Balance	-449	677	387	-410	-956	-485					

GOVERNMENT FINANCES 1954-1964

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
<i>Paraguay</i> (millions of guaranis)											
Revenue					2,831	2,692	3,319	3,632	4,328	4,368	
Expenditure					3,127	2,759	3,352	3,792	4,338	4,678	
Balance					-296	-67	-33	-160	-10	-310	
<i>Peru</i> (millions of soles)											
Revenue	3,726	4,800	5,418	5,355	5,527	6,532	8,669	10,339	11,278	14,265	
Expenditure	3,819	4,770	5,773	6,027	6,226	6,858	8,124	10,013	12,795	16,878	
Balance	-93	30	-355	-672	-699	-326	545	326	-1,517	-2,613	-2,440
<i>Uruguay</i> (millions of pesos)											
Revenue											3,468
Expenditure											4,718
Balance							-110	-210	-975	-1,155	-1,250
<i>Venezuela</i> (millions of bolivares)											
Revenue	2,660	2,829	3,201	5,521	4,870	5,306	4,674	4,995			
Expenditure	2,434	2,798	3,055	3,798	5,428	6,241	6,177	5,900			
Balance	226	31	146	1,723	-558	-935	-1,503	-905			

Source: *International Financial Statistics*, International Monetary Fund.

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such as agriculture, consumers' goods, and export industries, have to be stimulated. There has to be a redistribution of income from sectors which have profited from inflation to those which have been injured by it. This includes wage adjustments, which are most difficult to achieve in these days of strong and active labor organizations.

Therefore, it is not just a matter of slowing down the printing presses and the credit pump. There is no point in exchanging inflation for severe deflation. The brakes have to be applied and then released from time to time to keep the economy from skidding into the ditch of depression. This process of adjustment, of course, must extend to all areas included in the previous inflation—budget, credit, investment, wages, and international transactions.

As summarized in last year's CIAP report, effective government measures to bring inflation to a halt in Latin America comprise a three-sided attack: reduction of government deficits; provision of increased supplies, particularly of consumers' goods; and income policies which do not have built into them self-fulfilling inflationary consequences.

This three-pronged attack on inflation was strongly supported by Walt Rostow in a recent address at the Brookings Institution when he said: "The task of cutting down the government deficit, along with private credit restraint, requires the cutting back of subsidies to public corporations which, in Latin America, account for a high proportion of the government deficits." It also requires increased tax collections, credit ceilings, and other devices of monetary restraint. The task of providing increased supplies of goods and, thereby, mounting a systematic attack on the cost of living, he suggested, can be done by moving large supplies of agricultural products into urban markets and by inducing appropriate industrial pricing policies. As to income policies, he pointed out that, if such policies are to be successful, "an understanding must be developed about real wages, productivity, and price policy that is consistent with real wages being equal to productivity in a non-inflationary environment."

When all this has been done, says Rostow, "the final engine of inflation turns out to be the expectation of inflation itself; and it is the behavior of the government which is the largest single determinant of these expectations."

This might be a good note to close on; but I would rather wind up this rather rambling discussion by emphasizing that control of inflation is not a one-shot operation. It requires continual vigilance, pursuance of a realistic and sweeping anti-inflationary program embracing education, training, increased agricultural productivity (perhaps the weakest point in the Latin American development picture), provision of adequate credit for farmers and small businessmen, the development of capital

markets, broadened ownership of the means of production, better tax administration and improved tax collections (rather than just higher taxes), and, finally—a subject which deserves more attention than I have been able to give it in this paper—the provision of a total economic and political environment which will be conducive to foreign, as well as to domestic, investment.

As suggested earlier, the belief that underdeveloped countries will be able to raise themselves by their own economic bootstraps is a delusion. Foreign assistance is not only helpful—it is essential—and the more foreign assistance the developing countries of Latin America receive and use productively, the less reason or excuse there will be for resorting to that “ole debbil,” inflation.

Part II

BUSINESS RELATIONS

**Horace C. Holmes: THE FARMER AS A PRODUCER AND
AS A CONSUMER**

FOOD FOR THE PEOPLE in cities, fibers for clothing, many of the raw materials for industry, and, in most of the Caribbean countries, a good share of the products for export come from the farms. If farmers do not produce the food, fibers, and other raw materials the trucks and railways cannot haul it, the processors cannot process it, merchants cannot sell it, bankers cannot finance it, and the townspeople cannot eat it or wear it. The farmer is a primary producer. It is on the farms that new and more productive varieties of plants are grown: disease resistant cacao, hybrid corn, high-yielding varieties of sugar cane, improved varieties of coffee that can be either used or exported, to name a few. It is on the farms that improved livestock is kept and cared for—dairy cows, beef cattle, hogs, poultry, and sheep. And it is from these activities carried out on the farms that we get our meats, milk, eggs, wool, hides, and all the by-products that come from these raw materials. If these things are not produced on the farms in a country, they must be imported from farms in other countries.

Too often the farmer and the vital role that he plays in the total development of a country are forgotten or ignored. Almost every activity of non-farm people is dependent, in some way, upon the efforts and achievements of the farmer. Even in a group such as this, where important problems of development are discussed and analyzed, we are apt to overlook the many, many ways in which the efforts of the farmers affect our daily lives.

Without the farmer, our menu at dinner tonight would be very thin indeed; we could have boiled or dried fish, but little else. His cotton

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provides the stuffing for the mattresses upon which we sleep and the fibers for the sheets that cover us. Our shoes are made of leather for which he produced the hides, and much of our clothing is made of wool, for which he is responsible. We start each new day with coffee from his coffee trees, sugar from his cane field, and cream from his dairy cows. The farmer is important. We should know more about him, what he can do, what he needs help to do, and what must be done if there is to be progress, progress not just on the farms but in the cities as well. A productive agriculture is essential for progress.

Too many urban people look upon the farm merely as a supplier of cheap food and raw materials. Some even look down upon the farmer as a person and look down upon farming as a menial occupation. There is a widespread idea that the farmer has always been on the farm and will continue to stay there and feed the people in town. But many farmers are not staying on the farms. Many rural people in this and other areas are moving into the cities. In some areas entire villages have been abandoned. The whole population has moved to the city where many of them congregate in slum areas in or around the city. It is not that they left the farm because they have opportunities in the city; unemployment is a real problem. They have left because they see no opportunity on the land. Crowded into makeshift huts and filth and hopelessness in the city, such people become prime targets for every demagogue who comes along and offers bread with revolution. On the farms low productivity, low earnings, and the resulting inability of farmers to purchase the many things that they need and want are forcing many people off the land where they could and should be stable, responsible, and productive citizens. But the causes of this migration are obvious. Correcting the problem is more difficult but necessary if there is to be stability in a country. Stability is essential if we are to live in peace and if we are to prosper.

1. Farmers Can Provide an Important Market for Manufactured Goods and Urban Services

Many farmers manage to live but buy little from non-farm people. The few things that they do buy are primarily for consumption, not for productive purposes; these include salt, tobacco, cloth, kerosene, pottery, utensils, sandals, blankets, nails, a few medicines, and trinkets. The farming tools such as mattocks, shovels, and plows are usually made by the nearby blacksmiths and carpenters. Farmers save their seed from their own crops or obtain them from their neighbors. They select their better livestock for breeding purposes or get what they think is a superior animal from their neighbors. The hatching eggs come from nearby farmers who they think have better chickens. The fertilizer comes from

the animals or is made from other waste on the farm. The farmer's skill is learned from his forebears. Insect and disease control is left largely to fate. He produces for his own needs. He sells what he can of the little that he has. The surplus that is available for sale is irregular, usually is of highly varying quality, and always is in small lots. His market, if he has one at all, is through traders or collectors who assemble, transport, and sell the products as best they can. This marketing service is usually expensive; the trader often earns more just by handling the produce than the farmer does for producing it. There is little incentive for such farmers to produce more. They lack a reasonable market; they lack most of the things that they must have to greatly increase production—fertilizer, seeds, insecticides, implements, and such—and they lack the technical skills to use effectively these things even if they could get them. Such farmers are largely excluded from the market economy. They produce little beyond their own needs and buy little in the market.

But there are other farmers who are producing for the market—coffee, sugar, bananas, meats, dairy products, and such. Some of these farmers are high producers. They obtain rates of production unthought of a few decades ago. Some of these produce high-quality products, salable in the local market or suitable for export. It is on such farms that more and better fertilizers are applied to crops—nitrates, phosphates, potash, urea and the like. Fertilizers along with improved varieties, better cultural methods, insect and pest control, result in greatly increased production of sugar, coffee, citrus, and such. On such farms improved implements are used and more equipment is needed. Better methods of soil erosion control, reforestation of lands unsuitable for crops, the use of cover crops, and many other such things are what modern agriculture demands. It is on such farms that there exists an important market for all the non-farm items that farmers must have to be really productive. There is a tremendous potential market for improved housing and all the things that go with it—roofing, builders' hardware, furnishings, equipment, and such things as manufactured clothing, shoes, medicines, and medical care. Needed is transport of all kinds, for distances are great and goods are bulky. There is need for education of rural children, a need for teachers, for school buildings, for books—the list is endless. The farmers are willing to pay for these things and they can do so if only given a chance.

Little beyond a trading-post economy can be expected unless the rural consumer market is developed. In many countries the most important barriers to developing such a rural market for urban goods and services are excessive marketing costs in getting the farmers' products to the market place, and in getting the necessary production supplies to the farms.

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There are no easy solutions to these problems, but their importance justifies the attention of some of the best minds in the respective countries.

In a forthcoming book, soon to be published by the Agricultural Development Council, entitled *Getting Agriculture Moving*, the essentials for agricultural development are listed as follows:

1. Markets for farm products.
2. Constantly changing technology.
3. Local availability of supplies and equipment.
4. Production incentives for farmers.
5. Transportation.

Let's examine briefly each of these essentials.

II. Markets

No practical farmer will spend money for labor, feed, fertilizer, spray materials, and other needs to produce crops or livestock unless he has some reasonable assurance that he can sell his product at a price that will cover his costs and leave him something for his efforts. All too frequently the market that he has does not do this. Sometimes he is even unable to find anyone who will buy his products at all. Once this happens, the farmer is reluctant to try again; he has already learned his lesson. Many efforts have been made, some very successful, to insure a marketing system that gives the farmer a fair return for his products. Contracts with canneries, or processors to produce fruits, vegetables, and broilers are examples. Many of these efforts have resulted in large increases in productivity. Farmers are relieved of some of the risk of disastrous prices at the time their products are ready for market.

There are many successful cooperative efforts that have, over a period of years, provided the farmer members with a fair market. Some of these operate on a seasonal average price basis, so that the farmer has some protection against a highly fluctuating market. The Blue Mountain Coffee Cooperative in Jamaica is a good example of a successful, small farmers' cooperative that has served its members well. There are many others.

Farmers close to other markets may frequently sell their products at retail in the farmers' market. But distance, lack of transport facilities, and small volume definitely limit these opportunities to very small numbers. Sometimes the market is rigidly controlled by a few large buyers and the farmers do not have a chance.

Farmers farther from market, without an established market, such as a cannery or processing plant with which they can contract, are often completely at the mercy of the buyers, truckers, and shippers. Often

such buyers control the transport as well as the market. The farmer gets what is left after all other charges such as cost of assembling, hauling, and profit are met. Examples of this are too numerous to need listing. In Jamaica again, a country that has been importing many things that could be produced locally, efforts are being made to stimulate production by contracting with farmers to produce some 16 to 18 needed commodities. Assembly points are being established where the produce is graded and farmers are paid according to grade. It is too early yet to tell how well this system will work, but results to date are quite encouraging. It is certainly a step in the right direction.

Farmers must be able to sell what they produce, and obtain the essentials for production at a reasonable price or they cannot be expected to increase their output. We have much to learn about marketing at the grass-roots level. Some of the smaller countries with as yet uncomplicated systems may well provide some practical answers to these problems that will be of benefit to all of us. It is a challenge well worth serious thought and action.

There are many excellent scientists and technicians in the Caribbean area. They know about how to increase productivity, stop losses from insects and disease, how to extend the information to practical farmers, but their knowledge and skill cannot be fully utilized until the farmers can sell what they produce at a profit.

III. Constantly Changing Technology

The increase in agricultural productivity that has occurred during the past 25 years is truly revolutionary. Per acre yields of such crops as corn, wheat, sugar cane, coffee, cacao, and the production of milk per cow, eggs per hen, rates of gain of hogs and cattle that were thought to be impossible a few decades ago are now being obtained by some farmers. In the United States nearly four centuries were required to increase a yield from approximately 15 to 30 bushels per acre. Corn yields have been doubled again since 1940, averaging now about 60 bushels. Some farmers now get as much as 150 bushels of corn per acre. Hybrid corn, new and better varieties of most crops, more efficient animals, better feeds, feed supplements, new and improved methods of insect and disease control, more efficient tools, improved fertilizer, and the knowledge to utilize these things have been responsible for these changes. New and improved methods of doing things, new varieties, new feeds, new chemicals, new implements that permit increased production and lower costs are constantly being developed. These new developments are not confined to the experiment stations, important as they are. Chemical companies that manufacture fertilizers, insecticides, and anti-

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biotics; machinery manufacturers who make tools and equipment; feed manufacturers who make and test feedstuffs and feed additives are all potential sources of new technology. These new materials and techniques need to be tested and adapted to local conditions, and the economics of farmers using them must be determined. There is a constantly changing technology in a developing agriculture. Farmers must be kept informed of these changes.

IV. Local Availability of Supplies and Equipment

Farmers must be able to obtain the essential things for modern and efficient farming when they need them. Improved seed, regardless of its quality, is of no use to the farmer if it is available too late for him to plant it. Chlorodane or aldrin to control aphids, or green bugs in coffee, bordeaux mixture for banana leaf spot, or whatever spray materials are needed should be available to the farmers so that they can spray before the disease or insects destroy the crop. These materials should be of the right kind that have been tested and proven, in suitably sized packages and at a reasonable price.

Feed supplements to hasten growth, increase production, and lower the cost of producing hogs, chickens, beef, eggs, or milk must be readily available to the farmer when he needs them. Antibiotics are needed before the animals die, tractor or other machinery parts are needed immediately—not six months or a year later. Merchants are reluctant to stock supplies that they think may not be readily sold. Farmers are unwilling to depend upon supplies that they may not be able to get. Some system to insure that farmers can get what they need when they need it is essential for high rates of agricultural productivity.

V. Incentives to Produce

The farmer, like other people, wants respect. He wants to care for his family. He wants an opportunity for his children to progress, and he wants many of the goods and services that can be provided only from non-farm people. To obtain these things he knows that he must produce something to sell. But he also knows that production alone is not the answer. He must make a profit and he cannot do this if the prices of the things that he has to buy are abnormally high in proportion to the prices of the things that he has to sell. Nor can the farmer who works other peoples' land be expected to spend money for fertilizer or insecticides or other items to increase production, unless the system of rental encourages him to do so. It must be profitable.

Lack of roads, lack of transport facilities, lack of competition at the

market place, excessive losses due to damage in storage and transport, an excessive number of middlemen handling products each with costs and each taking a profit are all factors making for high marketing costs.

These same factors, in addition to high taxes on essential inputs such as fertilizers, insecticides, and equipment are disincentives to the farmer and prevent him from producing to the maximum.

VI. Transportation

Farm products must be moved efficiently from the farm to the consumer, and essential agricultural inputs must be moved efficiently from the urban centers to the farms. This involves costs, but it also involves more than cost. Some goods are perishable and must be moved quickly. Some products require special equipment for transport—refrigeration, storage, or special handling. Lacking these facilities and services at reasonable cost, farmers remote from market may be effectively excluded from it.

The lack of secondary roads leading from the back country to the highways, the railheads, or the river ports can be, and usually is, an effective barrier to increasing productivity in outlying areas. Needed are such roads as will permit the use of some more efficient means of transport than head loads or pack animals. Fortunately, such secondary roads can often be built largely with local labor and with local materials. Perhaps no other single investment can pay higher dividends than roads to areas of good land in the back country.

VII. Education, Health, and Other Services

Even though we have stressed the five essentials for increasing productivity and opening the rural market, this in no way is intended to minimize the importance of education, health services, continuing agricultural research, an effective agricultural extension system, or a system of credit to enable farmers to become more efficient. But it seems to me that we know a lot more about training teachers and opening schools, training doctors and nurses and health workers, and putting them in places where they can be effective than we do about how to provide these five essentials. There are a number of excellent institutions carrying out important research and testing in the various fields of agriculture and there are many dedicated men and women working with farm people on improved agriculture, problems of making their homes more livable, their families healthier, and improving rural communities and generally strengthening the country. But to make maximum use of these services, to support them, to expand them, and to continually improve them, the barriers that limit agricultural productivity must be removed.

VIII. New Markets

The Instituto Centro Americano de Investigación Tecnológico e Industrial in Guatemala is working on the problem of new uses for tropical agricultural products, such as paper from coffee hulls which are now wasted and the preservation of various tropical fruits. These are important possibilities. There is a future for many of the tropical fruits. Bananas were once thought to be only "monkey food," and tomatoes were once only used as ornaments—they were known as "love apples." High-quality vegetables such as green peppers, lettuce, cocktail tomatoes, and greens of various kinds are now being shipped by air more than 3,000 miles from Uganda to European markets. Increasingly, off-season vegetables and fruits and those requiring much hand labor are finding a market in the United States.

Here are fertile fields for development in many of the Caribbean countries. There are natural advantages of climate, and just next door there is a tremendous consuming market.

The Common Market in Central America is making tremendous progress. Trade among the five members has tripled since 1960.¹ Many new plants are being established. These new industries are producing many of the things needed in the countries or processing raw materials for both domestic use and export. New jobs, new supplies available, new investment opportunities, and new markets for agricultural products provide a very encouraging picture.

IX. Highly Productive Countries Trade More with Each Other

During the 25 years between 1938 and 1963, total exports from the developed countries rose by 180 per cent. During this same period total exports from the underdeveloped areas increased by only 81 per cent. Imports by the developed and underdeveloped areas were increased by 120 per cent and 132 per cent, respectively.² When one takes into account the increases in population of the two areas during this period, the contrast is even more striking.

I have dwelt at some length on the need for an effective consuming market in the rural areas for the products of the towns, for a market for the farmers' products that provides incentives and opportunities, and for a dependable source of essential farm supplies of a quality and at a price that will permit the farmers to produce. These things are essential if the rural areas are to contribute most effectively to the economic growth and political stability of the country. Prosperous neighbors make good neighbors, good customers, and good friends. The same self-interests that make it necessary for the people of each nation to open

the back country to the market place so that the rural people can produce and consume are the same interests that operate among nations. Just as developing the capacity of the farms within a country is essential for the well-being of a country, developing those same capacities within the nations of this area and the world at large is essential for peace and progress.

Some of the imports may change, and well they might as the people within the country become able to produce, process, or manufacture more of the things that they need. But if these changes mean more job opportunities for the people on the land and in the cities, if they mean more of the good things of life can be attained by those people who will try; if they mean a brighter future for this and coming generations; then they lead to peace, friendship, and understanding with our neighbors. There can be no more worthwhile goal for which to strive.

NOTES

1. "Why Central America Moves to a Faster Beat," *Business Week*, September 11, 1965.
2. United Nations, *Statistical Yearbook*, 1964, pp. 483-84.

**N. E. Surbaugh: MANUFACTURING PROBLEMS —
THE EXPERIENCE OF SEARS**

IT SEEMS TO ME that perhaps your interest in the development of, manufacturing in the merchandising areas in which we operate would be greater if we would consider for a moment the very real problems faced by Sears—some of which never were anticipated—and then the solutions in full or in part to these same obstacles. And I should state to you quite frankly that we still are searching for ways to solve some of them.

It may be that you are wondering just what manufacturing in the Caribbean countries has to do with the theme of this Conference. The answer to that is, “not much,” if you refer only to the end use of the products; but the relationship does exist in the areas of machinery and equipment, raw materials, and technical know-how, although even here the connecting link is weakening due to the sad fact that the United States no longer is competitive in many lines—electronic parts and sheet steel, to mention two. And, of course, ocean shipping by United States carriers is out of the question when our Latin suppliers have a choice.

I

Although we enter into each investment within each country with the intent of helping to establish sources for goods which would be of the types and qualities we could sell with mutual confidence to our customers, we were not prepared in several instances (and I refer to all Latin America here) to change from 57 per cent import to 1.28 per cent, to quote a specific example, and to do it practically overnight. This

is what happened to us in Colombia when the dictator was overthrown and the country had to tighten its belt to survive. This is not the only case, nor is it the severest, but it still wasn't easy. What I am implying is simply that in any underdeveloped economy the rules of the game can be rewritten at any time merely by the assumption of power by a new cabinet minister, and you are well aware of the frequent cabinet changes in most Latin American governments. These things affect the abilities of your sources to furnish the goods you need.

You might ask just what a new minister would have to do with manufacturing, and my answer to that is considerable. Each nation's economy either progresses, stands still, or backs up, depending upon the attitudes of the various cabinet ministers on imports of raw materials, labor laws, labor contracts, social benefits, etc. If you think that social benefits or labor contracts cannot be costly, let me cite a friend of mine who was president of a major Caribbean investment, and whose social benefits were 65 per cent of his total payroll (some are even higher).

However, let us list some of the particular problems which we may discuss later in more detail. These were:

1. Outside of textile mills, very few large manufacturers.
2. Nearly all items were custom-made. I have known it to take over six months to refinish one chair.
3. No production lines of any kind. What little production that existed was accomplished in a family-operated shop.
4. Odd-size ranges in wearing apparel. Men's shirts, for example, in only size-32 sleeve length.
5. Poor transportation system, or none at all. Countries divided by high mountain ranges. People could not communicate with each other, let alone trade.
6. Gross errors in estimating local markets.
7. Populations split into four groupings: large landowners, the embryonic middle class, the laborers, and the small farmers. Of these four, the last two could not be considered potential customers for any great variety of products.
8. No lines of credit for small manufacturers.
9. No distribution system at all, and this is separated from transportation since I am referring to a central collection point for distribution of goods.
10. Mass production and mass merchandising completely unknown—no modern retailing systems.
11. Countries relying on one crop or one product, such as coffee, oil, bananas, etc.; therefore, no skilled labor pool, which, also, is a result of limited educational facilities.

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These are just a few of the stones in our path. The methods used to get around them were not always ingenious, but the fact that we survived and prospered proves that they were at least effective.

In many items of merchandise it was simply a matter of finding someone who might be interested in becoming a manufacturer. At one time we took a little dressmaker with three sewing machines and two employees, taught her how to set up a small production line, and she grew up to ten workers using eight machines in a matter of a few months. Of course, we had to teach her also how to overlay fabrics so that she could produce a dozen identical pieces with a single cutting.

On the other hand, when we needed mass-produced furniture there were no sources at all. To get reasonable production and fair prices, we had to help a number of small shops enlarge by advancing the money for land, buildings, machinery, and lumber. As late as 1959, in Colombia alone, we had \$1 million out on such loans. Risky? For the most part, no. Nearly every penny was paid back, and very few tried to take advantage of us.

However, there were those who did. One such fellow, a fine cabinet-maker, went into business as a factory operator under the foregoing conditions. As soon as he had a little money in his pocket, he opened his own store as our competitor. Instead of filling our orders, we found that we had to wait until his sales floor was well stocked, and what was left over, we could have. Of course, he extended credit to his retail customers in a rather reckless fashion. The result was a foregone conclusion—he went bankrupt, and we lost a supplier.

Another fellow, whom we had helped, gave us a different education. He made bedding. But in 1959 we became suspicious, cut open a few of his mattresses at random, and found them stuffed with shoddy (ground-up old rags). We separated him from our invoice-paying department. However, this past September he asked a friend to intercede for him. We were told by his pal that he had repented his sins and had reformed, and so we agreed to let him submit new samples from his regular production line. I hardly need to tell you—we cut them open, and, as you might surmise, they were full of shoddy.

But such trickery is rare. Our greatest drawback toward building up a source has been the inherent desire to become a millionaire overnight. The philosophy of United States business is based upon fast turnover of inventory at a reasonable, or even small, profit. The big money is made on low percentages geared to high volume. But such a merchandising theory was unheard of in a society that until recent years has been principally agrarian. The idea has been since the days of the conquistadores to sell one item at 100 per cent, 200 per cent, or 300 per cent profit, and it hasn't been an easy job trying to convince our Latin American friends

(and partners in a few cases) that it is better to follow our system and be around for a long time. Fortunately in the past few years the idea has been catching on.

II

It is easy to talk of setting up a factory, any factory, but it is quite another matter to keep it operating, and especially to keep it operating at a profit. First of all, we were as guilty as any other company of overestimating the potential market, and everything we know today we learned the hard way. There was no handbook to show us the guidelines.

Our original sales plans and subsequent factory production schedules were geared to population figures. Census statistics, we found later, were approximations at best. But the principal error was in assuming that "X" number of bodies equaled "Y" in purchasing power, which isn't true even in the United States. Our own purchasing abilities vary greatly from one city to another.

After five years in Latin America, I came up with my own formula for estimating sales potential which, while not scientific, is somewhat nearer reality. A city of a million inhabitants will have the purchasing power of perhaps 100,000 to 150,000 persons here in the States, depending upon the amount of industrialization. Rural areas in Latin America have not yet reached the plateau of income to participate fully in the economy, and, in fact, in some of the remote farming lands any kind of participation is difficult.

The purpose of mentioning these things to you is to point out the costly mistakes made not only by us, but by many who came later. As I do not like to speak in generalities, let me cite some specific examples:

1. In Venezuela a fellow with money to invest decided to construct a 250,000-square-foot factory. He had no idea of what it could be used to manufacture, nor did he know what company (or companies) might lease it. But he did build it, and he did find an occupant. Well, a factory of that size, properly laid out, can produce for a tremendous market. Needless to say, the market didn't exist, and we have been instrumental in interesting knowledgeable people to correct a horrible mistake.

2. In Colombia there are eight refrigerator manufacturers. The General Electric factory alone could make every refrigerator needed in Colombia, and have capacity to export to half of Latin America. Of course, the factory in which we have an interest could almost do the same thing, as could another. Our only excuse is that we were there first.

3. In the same country are several tire manufacturers. Just one, B. F. Goodrich, may never in the foreseeable future have the need to use its entire capacity. Were it to do so, undoubtedly it could supply every

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country on South America's west coast. And, to make matters worse, tire prices are controlled by the government. The last I heard, only 11 per cent gross profit was allowed on a nationally advertised tire and, believe me, on 11 per cent there will be a well-worn path beaten very quickly to the poorhouse. I mention this for the benefit of anyone here who harbors an ambition to manufacture tires.

4. Let's look at another problem in the making, and Peru offers a prime example. When I was in Lima recently, I visited the construction site of a major automobile assembly plant. Another already is operating, others have been granted licenses and are scrambling madly to get into the very limited market, which I was told, can't possibly exceed a few thousand cars if every vehicle in Peru were to be replaced. Maybe the prestige is worth it, but I hope they won't mind the losses.

My whole point is simply that if you intend to manufacture for the Caribbean market, then you had better adjust your sights to realistic goals, and you should be prepared for the unexpected. Keep in mind at all times that the rules are subject to change without notice. An *almost* perfect job is not enough. In 1963 in Bogotá we found ourselves in a real quandary. It seems that a clerk in the government licensing department had refused to grant an import license to one of our subcontractors for raw materials. The result was several hundred refrigerators, each complete in every detail, except one—no handle.

This is not unusual. In one country during another of the austerity programs on imports, a major oil company asked for a license to bring in \$7,000 worth of chemical used to separate the salt water from the crude oil. Again, the licensing department rejected the application, and it wasn't until the Minister of Mines learned that the oil field would have to be shut down that pressure was brought to bear to issue the license. Then the shipment had to be brought in by air at great and unnecessary expense.

III

We are so streamlined in this country for rapid action, big production, mass sales, etc., that we tend to overlook most important essentials which we need and use in our daily routines, and which we take for granted. One of these is cost accounting. We didn't always operate too efficiently either, so over the years we have developed patterns, norms, prorated costs, and other methods, which now are integral parts of our businesses. In the Caribbean, some of these standards also are applied, but not generally cost accounting. In fact, for five years in Colombia, I tried to find a cost accountant—any cost accountant—and I was unsuccessful. Finally, we sent one of our United States factory accountants to Bogotá to train a man on the job.

Another area that causes us to scream with pain here at home is the progression of social benefits. Yet we are reactionary and backward compared to the social benefits that have been legislated in the Caribbean countries, and all of which seriously affect our operating procedures to the point of hindrance and, therefore, our profits. Again, let's not talk in generalities—here is a specific example.

We owned a garment factory which we set up in a grand manner. When I inherited the operation we had 125 employees. After analyzing the situation, we calculated that 85 people were all we possibly could use, so we petitioned the Minister of Labor for permission to reduce the force (you may not at any time control your own payroll unless you haven't hired workers in the first place). Permission was granted—10 per cent of the employees per month until we had reached the desired number. The fact that a manufacturer is losing money, that he may not be able to meet the payroll, never enters into the discussion.

Another such occurrence took place in 1962 when our applications for licenses to import sheet steel were held up. When we ran low on steel we asked the same ministry for permission to lay off some men temporarily. At that time we had 465 men in our shop. Permission was granted for a 1 per cent monthly reduction in force—4.65 bodies the first month, 4.6035 the second month, and so on.

To avoid such problems, I would make two suggestions: the first would be to keep away from all grandiose and elaborate production plans, thereby keeping your numbers of employees to a basic work force; and second, to set up a factory that will use only indigenous raw materials if it is at all possible.

IV

Earlier I mentioned the lack of a skilled labor pool. Because of the centuries of an agrarian society in which only the landowners' children attended school, in most countries there is not only a deplorable drop-out situation, but there exists a never-went group that poses a very real problem politically as well as economically. Also, a person who can barely read and write is considered, for all practical purposes, illiterate. But this is not going to benefit your labor force, if you decide to open a factory, except in the manual labor category. Added to this is the fact that manual labor is a small portion of any factory's needs. Skilled labor is in greater supply today than when we initiated our merchandising programs, but there still exists no great amount, and any of you who decide to invest should be prepared to train your own people.

Another labor cost not planned or expected by the neophyte United States investor is a special benefit legislated for the female worker. I

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am not trying to be facetious when I tell you that her labor pains in most countries are, quite literally, your labor costs. She may take up to two months off prior to her delivery date, at full salary, and you had better save her job for her return. This has happened to us countless times. Sears is the corporate godfather to hundreds upon hundreds of young Latin Americans. But I think the most interesting case occurred in Bogotá in 1960. As a sales promotion event we had developed a highly successful carnival in our two stores in that city which tied in with the South American custom of a carnival just prior to Lent. Our Barranquilla store had been in the midst of a pre-Lenten carnival for years, so we merely moved it up the hill.

The Latin American is a most enthusiastic fellow—and emotional—who loves music, dancing, and life itself. He puts his heart and soul into living every minute. This is wonderful up to a point, but after our creative sales efforts of February had passed on to the record books, the creative efforts of two of our employees began to be apparent along about June. The fact that our female department manager was not married made no difference in the eyes of the law. We paid the bill, and when she returned to work we had no choice except to put her back at her same level of responsibility. Frankly, this sort of thing is expensive.

On the other hand, many labor union contracts contain a reverse clause which gives a most interesting license to male employees, and which really runs up factory payroll costs. An almost literal translation from one of our factory contracts is, "that medical and educational benefits will apply equally to legal wives and to common-law wives, and to legal children and to natural children." This struck me as very comical when I first read it, but after I reflected upon it a bit more I came to the conclusion that our friends were being more honest than we. They were recognizing quite openly a problem that was, and is, very real. We, for reasons unexplainable, pretend the problem doesn't exist, and hope that it will go away. Or we just leave such things up to the social worker and the welfare people, and perhaps the difference is not actually in cost at all, but in the method of payment. In South America it shows as a part of the factory payroll, here it is a part of your taxes.

In closing, all of our Latin American investments have been interesting to develop, most all of our projects have been profitable, and all have been good for the host countries. Along this vein, let me cite some figures to prove a point. When we entered Colombia very few manufacturers of any type existed. When I left there in April of 1964, we were buying from exactly 1,409 factories and 5,600 cottage industries, most of which we had developed ourselves. This sort of investment has not, of course, been either easy or smooth. But it has been a boon to Colombia, and the same is true in Venezuela, Mexico, Peru, and Brazil.

**T. Graydon Upton: THE INTER-AMERICAN
DEVELOPMENT BANK AND CARIBBEAN RELATIONS**

THE GENERAL THEME of this meeting is "The Caribbean; United States Relations," a most appropriate selection of subject matter for the time we are living in, characterized by United States involvement in different parts of the globe, and by the fact that our very future is closely intertwined with that of people of different races, creeds, philosophies, and habitat in a planet which is constantly shrinking, as the result of the impact of modern technology in the fields of transportation and communications.

The idea of an isolated American continent, which was the basis of the original concept of Pan-Americanism, is no longer valid in today's world. Mr. Felipe Herrera, the President of the Inter-American Development Bank, once said: "In the light of modern geopolitics, Latin America is no longer the exclusive neighbor of the United States. Advanced means of transportation and communication have brought the world together and an ideological conflict has banded the nations of the earth in groups that do not follow orthodox geographical divisions. The Americas find themselves with neighbors in the five continents of the earth."

Looking back in history we find that the Caribbean Sea was to the Americas what the Mediterranean Sea was to the Roman Empire. "Mare Nostrum" they called it, which can be translated as "Our Sea." The Caribbean Sea has been our sea since the Americas were discovered almost half a millennium ago. It was through the Caribbean that the early Spanish conquerors arrived in this hemisphere spreading then both northward and southward. The whole Caribbean area was but one

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geopolitical unit comprising the islands as well as Florida and the Louisiana territory, Mexico and the Central American countries, and the northern countries of South America. Considering the problem of transportation at that moment, it is obvious that the facility of movement afforded by maritime vessels permitted a closer unity than would have been possible had all that geographical area been a land mass. Colonization followed the discovery of sea routes and practically stopped at the periphery of the shores.

Florida itself presents a very interesting example of this factor, as the city of St. Augustine holds the honor of being the oldest city in the United States. Three centuries of Spanish culture are evident in multiple ways there and in many other parts of the peninsula of Florida.

I

The common heritage binding the Caribbean nations together is, however, by no means exclusive. It is also shared by a very great part of Latin America. At a time when economic cooperation and political unification appear to be key ideas for the future, the concept of sub-regions starts fading in importance, and an integrated approach encompassing all the countries of the Americas gains ever increasing acceptance. A manifestation of this tendency is to be found in the Alliance for Progress, that great cooperative effort launched by the United States and the Latin American republics in order to achieve social and economic progress in the hemisphere. The economic and social identification of common interests of countries in different stages of development, recognized for the first time, in such vital form, in the Alliance of Progress, introduced a new and extremely important principle in the realm of international cooperation.

Without a doubt, the Alliance for Progress represents a milestone in Inter-American relations. In order to be viewed in the proper perspective, it should prove useful, however, to review some of the main issues of the relations between the United States and Latin America since the era of the "Good Neighbor Policy." During World War II, Latin America helped willingly in the war effort by accepting fixed prices for its principal export products; the armed conflict, however, prevented it from acquiring both the capital and the consumer goods which were demanded, and as a consequence foreign exchange reserves piled up rapidly. When the war ended, and price controls in the United States economy were loosened, Latin America was faced with an accumulated demand for imports and simultaneously increasing import prices. Under those conditions no accumulation of foreign exchange reserves could be sufficient, and the ensuing dollar shortage affected just about every Latin

American nation until the Korean War, which only ameliorated the situation but did not cure the basic malady.

In the meantime, the United States was deeply involved in the post-war reconstruction effort through, first, the Marshall Plan and then the Aid Programs to the underdeveloped areas on the periphery of the Soviet Union. Political as well as economic considerations set the guidelines for United States aid policies at the time, and Latin Americans felt neglected as there appeared no political need for the United States to grant aid to the countries in this hemisphere, who had not directly suffered the physical ravages of war.

That was the time also that the first multinational financing institutions came into being. Both the International Monetary Fund and the International Bank for Reconstruction and Development were born at the Bretton Woods Conference held in 1944 and to many Americans it seemed that there was no need to create specialized agencies to deal with Latin America when there was already a world-wide agency like the World Bank. Furthermore, it was the United States' position that private capital could and would supply the development needs of Latin America if only the investment climate were improved through tax incentives and sympathetic consideration of dividend remittances, and the like.

Latin Americans, on their side, maintained at virtually every inter-American conference of the postwar period the so-called "Unfavorable Terms of Trade" argument, saying that whereas the prices of their export products were going down, prices of imported items were going up and that no possible inflow of private investment capital alone would be able to correct the gap.

The situation grew more tense with the years, and in 1958 two significant events took place, precisely in the Caribbean area, which finally convinced the United States that all was not well in Latin America. The first incident was the trip of the then Vice President of the United States, Richard Nixon, to Caracas and then on to Lima, in which he was subjected in both cities to stoning and vituperation. Furthermore, drastic changes in economic policies adopted by the Revolutionary Government of Fidel Castro in Cuba, and its final embrace of the cause of Communism in a country scarcely 90 miles away from the United States, could not be dismissed as just the result of Latin American temper or idiosyncracies.

II

These events served to strengthen the hand of those in the administration of the United States government who believed that a substantial change was needed in the position of the United States *vis-à-vis* Latin

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America. In August, 1958, the then Under Secretary of State, Douglas Dillon, announced that the United States was prepared to consider the establishment of an inter-American financial institution to be dedicated exclusively to helping finance the development needs of the Latin American nations, an objective sought for over half a century by Latin America. Between January and April of 1959, a committee, in which the 21 American republics were represented, met in Washington, D.C. to draw up the Agreement establishing the Inter-American Development Bank. By December 30, 1959, the IDB (or BID, as it is commonly called) was legally born.

While the necessary steps were being taken in order to make this fledgling institution operational, another pillar in United States policy towards Latin America took place when President Eisenhower issued his Newport declaration in July, 1960, foreshadowing a program for social projects in Latin America. Two months later, in September, 1960, came the Act of Bogotá, in which the United States pledged to establish an initial fund of \$500 million to aid Latin America's social progress in the fields of land settlement and use, housing for low-income groups, community water and sanitation facilities, and improved health and education.

The IDB opened its door for business in October, 1960, and authorized its first loan to a member country (Peru) in February, 1961. On June 19, 1961, the United States government and the IDB executed the Social Progress Trust Fund Agreement, whereby the IDB received in administration the amount of \$394 million as partial fulfillment of the United States pledge in the Bogotá inter-American meeting to aid social projects in Latin America at the same time that Latin America was committing itself to various social reforms.

Membership in the IDB is open to present and future members of the Organization of American States. Of all the American republics, only Cuba failed to ratify the Agreement, and as long as it remains outside of the Organization of the American States, it is not eligible to become a member. On the other hand, whenever countries like Canada, or in this area, Jamaica and Trinidad/Tobago finally integrate themselves in the inter-American system through membership in the Organization of American States, they may also, if they so wish, become full-fledged members of the IDB.

The capital structure of the IDB provides precisely for this eventuality. With a word of warning that our institution is three banks within one bank, or if you prefer, a bank with three different windows, let me describe briefly the capital structure of the Bank.

The IDB has a hard loan window in the form of its Ordinary Capital. The original authorized amount of the Ordinary Capital was \$850 mil-

lion, out of which \$400 million were to be paid-in and \$450 million were to remain as callable capital to serve as a guarantee for borrowings of the Bank in the capital markets of the world; of the paid-in capital, 50 per cent was to be paid in dollars or gold and 50 per cent in the member countries local currency. It is obvious that in the case of the United States, the whole 100 per cent of the capital to be paid-in was to be in dollars.

As a result of Cuba's failure to ratify the Agreement, the Ordinary Capital actually paid-in amounted to \$382 million. In 1964, the authorized Ordinary Capital was increased by \$1.3 billion—\$0.3 billion to be available for possible new members (precisely for such possible cases as Canada, Jamaica, and Trinidad/Tobago, which I have just mentioned) and \$1 billion to expand the callable capital.

The Fund for Special Operations constitutes the economic soft loan window of the Bank and it is administered and accounted for completely separately from the Ordinary Capital of the institution. The initial authorized resources to be paid-in amounted to \$150 million, once again each member country paying one-half of its contribution in dollars and one-half in its own currency. A 50 per cent increase was authorized and subscribed in 1963, and in April, 1964, the Board of Governors of the IDB in its regular annual meeting which was held in Panama City, adopted a resolution recommending an additional \$900 million increase payable over a three-year period, this time in the currency of each subscribing country. The share allocated to the United States of this increase was \$750 million.

I have already mentioned in passing the third window of the Bank, that is, the Social Progress Trust Fund which represented funds administered by the Bank, rather than its own resources. The initial resources of \$394 million were expanded in 1964 by an additional \$131 million, making a total of \$525 million. The operations to be financed with the resources from the Social Progress Trust Fund were restricted to four specific fields of action, namely: Improved Land Use, Low-Income Housing, Water Supply and Sanitation Facilities, and Advanced Education. The Social Progress Trust Fund has now all been committed and it is not to receive any additional resources. On the other hand, the 1965 Resolution calling for a \$900 million increase in the resources of the Fund for Special Operations specifies that the expanded Fund for Special Operations would include in its operations the financing of activities heretofore financed by the Social Progress Trust Fund. In short, there has been a conceptual merger of the Bank's two soft windows.

The IDB may properly be referred to today, therefore, as a bank with authorized resources—both its own and in administration—totalling close to \$3.5 billion. The emergence in the financial scene of a regional

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institution of this size has caused the Bank to become a natural spokesman for Latin American interests in international economic forums, particularly in connection with problems of external financing and external public debt, and matters of integration. Furthermore, the joint membership in the Bank of all the Latin American countries has increased their creditworthiness in the eyes of non-member countries. Indeed the commitment of funds to the IDB by non-member countries like Spain, Canada, and the Netherlands, is truly indicative of the confidence merited by our institution outside the region.

There is another good indicator of the acceptance bestowed on a financial institution, and that is the rating accorded to its borrowings. We are quite proud to say that our bonds have been received equally as well as the borrowings of the World Bank, an institution four times as old as our own. We have borrowed in the New York Market three times—where our bonds are rated AAA—and once each in Italy, Germany, and the United Kingdom, for a total amount of \$273 million. These borrowings, made against the guarantee of our callable capital, present a clear-cut example of how our institution helps to mobilize additional hard-currency resources towards the Latin American countries.

III

But let us take a look at the opposite side of the ledger and see the types of operations in which the IDB is engaged. As of September 30, 1965, after five years of operations, the IDB had made loans for a grand total of \$1,360 million and in addition had granted non-reimbursable technical assistance for \$12.5 million. Just about 50 per cent of all loans have gone to the fields of agriculture and industry; the other half to finance water supply and sanitation projects, infrastructure works, housing projects, and educational projects.

Some specific examples, in the geographical area of your particular interest, of the type of operations financed out of the three windows of the Bank are the following.

From the Ordinary Capital: global loans to domestic financing institutions for relending to small- and medium-sized borrowers which on account of their size do not have direct access to international financing; such loans have been made in every one of the Latin American member countries of the Bank. Loans to private industrial enterprises like a pulp plant in Colombia, a cement plant in Costa Rica, a heavy machinery complex in Mexico, and others; water supply and sewerage projects in Colombia, El Salvador, Guatemala, and Venezuela; direct loans to governments or autonomous governmental enterprises for sundry purposes in each one of the Caribbean countries members of the

Bank. Mexico, additionally, has received a loan under the recently initiated program of financing of intraregional exports of capital goods. Parenthetically, it should be said that this program constitutes an eloquent demonstration of how the IDB contributes, at a practical level, to the integration movement in Latin America.

With resources from the Fund for Special Operations, the IDB has helped finance water supply and sewerage systems in Colombia, agricultural development and development of cooperatives in Costa Rica, electric power in El Salvador and in Guatemala, highways and agricultural development in Honduras, irrigation works in Mexico, highways, livestock as well as industrial development in Nicaragua, agricultural and industrial development in Panama, farm settlement in Venezuela, industrial and agricultural development projects in Haiti, and a water supply project as well as a global loan for industrial development in the Dominican Republic. Special mention should be made of the technical assistance operations of the Bank which are financed with the Fund for Special Operations. As mentioned previously, \$12.5 million have already been granted so far by the Bank in the form of non-reimbursable technical assistance.

Two loans with resources from the Fund for Special Operations have particular importance from an integration viewpoint, and they are the ones granted to the Central American Bank for Economic Integration (CABEI). A total of over \$14 million has been approved for industrial and infrastructure projects of regional interest through this institution.

As already mentioned, the resources of the Social Progress Trust Fund can be dedicated to finance projects in only four specific fields. In this academic environment, let me single out as examples our loans for higher educational programs, mentioning the loans granted to the Universidad Nacional and the Universidad del Valle in Colombia, to the Universidad Autónoma of Santo Domingo, to the Instituto Mexicano de Investigaciones Tecnológicas, to the Universidad de Oriente in Venezuela, and to the Central American universities which, following the pattern set by other Central American institutions, grouped themselves in order to receive a global loan from the IDB.

IV

It was not long from the moment the Alliance for Progress was launched that the IDB received the name of "The Bank of the Alliance." The emphasis that we lend to activities directed towards the acceleration of the integration process, as well as the importance we attach to the whole process of upgrading the human resources in the region, has caused the Bank to earn additionally the names of the "Bank of Latin

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American Integration," as well as the "Bank of the Latin American University." It is in this triple capacity that I ask you to think of the IDB as a regional bank created by the inter-American countries for the cause of inter-American development, a bank which is truly representative of the community of interests and efforts which characterize hemispheric relations today.

Finally, I should mention that the President of the Bank, Mr. Felipe Herrera, has put the Bank in the forefront of promoting Latin American integration. The Bank has not only financed a number of specific integration projects of roads, hydroelectric plants, and frontier studies, but it has also organized an institution for integration studies and training, and Mr. Herrera has been a prime mover in the development of the Latin American parliament.

**John T. Smithies: THE NEW BREED OF BUSINESSMEN
IN THE CARIBBEAN**

THE FAMOUS HISTORIAN AND SOCIOLOGIST, Dr. Arnold Toynbee has stated: "The preoccupation for social well-being is one of the outstanding movements which characterizes our time. Almost universally the privileged minority is now expending its force and making sacrifices towards diminishing the traditional gulf between the rich and the poor. If we are able to abstain from liquidating the human race, perhaps our era will be known, not as that which produced annihilating atomic arms, but as the era which saw the awakening of social conscience."

While many of us have disagreed with some of Dr. Toynbee's views, it is refreshing that he has recognized an encouraging change of attitude which has become increasingly apparent in Latin America. Unfortunately, little realization of the constructive work of the business community of the hemisphere has reached the North American audience. With few exceptions, our visiting reporters of all the media are still in the rut of lambasting the so-called oligarchs, filming the *javelas*, and raising the alarm about exaggerated flight of capital. Their stereotyped view of the hemisphere makes one believe that they traveled to our neighboring countries with preconceived ideas and then industriously sought out scenes, conditions, and interviews to substantiate their conceptions. Observers have often overlooked in the main the existence of a "new breed" of men (and women) in Latin American business, who are active in righting the wrongs which have existed for centuries.

I

Who makes up this "new breed"? It consists generally of men between thirty and fifty who understand the workings, responsibilities, and benefits of enlightened private enterprise for all the people of their nation. These men may be the sons of the industrial and agricultural pioneers who have come to realize that their duties lie beyond their immediate family holdings. These men may be self-made entrepreneurs who have risen from humble surroundings. These men may be intellectuals who have found that theories for the common good must be carried out in practical deeds. These men may be churchmen, army officers, labor leaders, professors. And the new breed includes women as well—the women who are becoming leaders in the battle against poverty, hunger, and misery. Also pertaining to the new breed are those foreigners residing in Latin America who well understand the need for peaceful economic, political, and social change, realizing that their role in the host country must include not only the economic but also the social improvement of its citizens.

All of those who make up this new elite have concepts and ideas in common. They understand that the fundamental happiness of man rests on the freedom and dignity of the individual. They know that the greatest spark for progress lies in personal initiative and not in controlled drudgery. They recognize that honest men savor the satisfaction of just remuneration for their efforts in contrast to the degradation of the dole. These people have read correctly the lesson of Cuba and are determined that such a failure will not happen in their countries. They have noted well that walls and barriers have been erected to prevent the exodus of men from the regimented states, not to halt the inflow to the curtailed countries. They see that private initiative has built in the industrialized democratic countries the most productive economies and the highest living standards in all history.

II

While some few individuals and individual companies have long realized a need for a positive stand accepting social and civic responsibilities, the real awakening of this new spirit began some ten years ago and has gathered momentum through the 1960's. At the end of 1960 a handful of business leaders from several Latin American countries met in New York with some of their North American counterparts to analyze the conditions of their countries. Though these men were known to each other only by reputation, they found that their concerns and concepts were the same. All were fully aware of what the late Adlai Stevenson

labeled "the revolution of rising expectations" and that, largely, the demagogic politicians, while promising a pie in the sky, were doing little constructively to solve the problems of national stability and development. Furthermore, and perhaps more important, discussions revealed that the businessmen themselves were too inclined to just "mind the store" without acknowledging and accepting their responsibilities in building a stronger society in which every member could have an opportunity to better his lot. These men saw that the totalitarian states were stepping into this gap, preying on the discontent of the *campesinos* and the dwellers of the overcrowded slums, preaching bloody revolution and annihilation of all the Christian ethics and democratic virtues that had been proclaimed in the original declarations of independence of the Latin American nations themselves.

As a result of these meetings, our friends from the south began establishing groups in their countries designed to gather together the forward-looking businessmen and to promote an active interest in the improvement of social conditions. Simultaneously, North American companies with interests in Latin America joined in the endeavor. This led to the formation of the Latin American Information Committee, the revitalization of the United States Inter-American Council, and later the establishment of the Business Group for Latin America. These three groups were consolidated into a unified voice for North American business in early 1965 by the establishment of the Council for Latin America. Likewise, the hemispherewide Inter-American Council of Commerce and Production (CICYP)—(of which the council for Latin America is the North American chapter)—has grown in size and scope under the able leadership of Mr. George S. Moore, its current president. All of the above are clear indications that the business leaders of the Western Hemisphere are responding to the enormous responsibility which the modern world has placed on their shoulders.

Perhaps the most important meetings in which the social responsibility of the private sector was defined took place in Maracay, Venezuela, in February and December of 1963. Attended principally by Venezuelan and North American business leaders, together with their counterparts from Latin America, action programs were outlined to strengthen democratic institutions, diminish the influence of Marxism, stop nationalization, and mobilize every capable business and professional man for community effort.

The progress of the Venezuelan private sector in these directions stands as a good example of intelligent application of these ideals. The Creole Investment Corporation, in which \$10 million have been earmarked for development of new industries which are not connected with the oil business, has led to the establishment of some 51 new enterprises

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with the corollary increase in employment. The justly famous Dividendos Voluntarios para la Comunidad, in which both local and foreign firms pledge 2 to 5 per cent of their profits before taxes to a common pool, has now a membership of better than 400 companies and the fund for 1965 should exceed \$13 million. This fund is administered by a private research organization which studies the most pressing social needs in Venezuela and allocates the receipts. Support is given to private education, vocational schools, the Venezuelan Institute for Community Action, low-cost housing, and other causes which will most effectively aid in the broadening of the democratic base and provide social development in freedom.

Similarly, local Colombian businessmen, backed by their United States counterparts, started the Federación Nacional del Sector Privado para la Acción Comunal (FEPRANAL), a program designed for community development in areas formerly dominated by extremists and guerrillas. In three short years, the outstanding success of this organization in establishing self-help projects and in promoting democratic understanding in the villages of the Sumapaz and Tolima regions has prompted the private sectors in Panama and Nicaragua to initiate comparable programs.

The North American Committee for Peru (CONAPROPE), the North American Association of Venezuela, and the Inter-American Action Committee of Colombia have been instrumental in a myriad of projects ranging from university student cooperative boardinghouses, active support of 4-H Clubs and other rural programs for children, to support of education by radio in the Andes *altopiano*, nurseries which teach and feed the children of working mothers during the day, and vocational schools for slum dwellers.

In Brazil, the Inter-American University Foundation each year brings a group of 100 top students to the United States for a month. This private, non-profit group is doing an excellent job of student selection, orientation, and programming in an effort to introduce future Brazilian leaders to the realities of democracy, private enterprise, and inter-American cooperation.

The Chilean businessmen have formed the Instituto Privado de Investigaciones Económicas y Sociales (IPIES), which is active in education. They have started and financed a national literacy campaign which has earned international recognition. They have promoted the construction of schools by and for the private sector resulting in six technical institutions in different industrial zones in Santiago which are managed by business groups. Further, they have established the Institute of Publicity, Sales and Marketing (IPEVE), which conducts solid, professional courses in corporate relations.

The list of these endeavors covers every country in Central and South America, but, laudable as the efforts may be, they are not enough. Many, many more companies and individuals of the private sector must enter into the battle; and we must recognize that this is a battle to determine whether totalitarianism or the democratic ideals of Western culture will prevail in Latin America. A good portion of the Latin American businessmen do not see or else do not want to recognize the danger. Even more disturbing is the blindness on the part of a larger sector of United States companies, especially when the thrust of our enemies is principally directed towards them.

III

Let us examine some clichés which have been long propagated by our opponents and which have been receiving rising acceptance.

“United States companies make unscrupulous profits—triple those which they make at home—and repatriate all the money.” The truth is that in 1962 the net profits to United States investors in Europe were 10.7 per cent, in the United States 9.1 per cent, and in Latin America only 3.6 per cent. Furthermore, it is hard to find a United States company which has not reinvested a goodly portion of its profits in Latin America.

“They discriminate against Latin Americans limiting them to the inferior positions and inequality in pay.” Contrary to this assertion, United States companies in Latin America are constantly seeking and training talented nationals for higher positions, and in many companies the top man is a Latin. The trend has been towards more and more national personnel. For example, Sears Roebuck started in Colombia with one store with some 25 North Americans and 200 Colombians. Today Sears has 10 stores employing 11 North Americans and more than 1,400 Colombians.

“The United States is not interested in an industrialized Latin America, but rather looks upon it as a source of raw materials with cheap labor and a market for American-made goods.” Facts show that United States activity supports Latin American industrialization. During the 1960's, the percentage of United States direct investment in manufacturing in Latin America has risen while the percentage of investment in the extractive and agricultural fields has diminished. Also the experience of the United States with other parts of the world demonstrates that it can best trade with highly industrialized areas. United States exports to Western Europe have increased at an annual rate of 5.7 per cent since 1952. Highly industrialized countries are each other's best customers because they have the purchasing power and the need for each other's

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specialties. Thus, it follows that the United States in its own interest, as well as Latin America's, looks favorably on Latin American industrialization.

These distortions, misunderstandings, and misconceptions are prevalent because a majority of the Latin American people think of capitalism as the nineteenth century version of laissez-faire and because United States business, while spending millions at home on enlightened corporate relations, has done relatively little in the important Latin American area to present the true picture of modern free enterprise.

Many businessmen are apt to become indignant when they hear of extreme left-wing students winning in university elections. They are perturbed when intellectuals and artists, while enjoying the freedoms of Western civilization, advocate systems of government which demonstrably shackle these very freedoms. They are alarmed to see large sections of the Latin American public following leaders who preach socialist, communist, or simply statist doctrines, in view of the social and economic failures and human bondage which such governments have exhibited in other countries.

Our businessman says to himself:

I produce goods and services and thus fulfill my basic obligation to the community.

I have good labor relations and my workers earn enough to provide a healthy and dignified life for their families.

I increasingly am affording more jobs and opportunities to the young and old and thus have a vital role in the community.

I make a profit and this proves that the community acknowledges my contribution.

All this he knows, but has he gone out and told the community in a loud clear voice what private enterprise is contributing? Has he taken the skeptical students and intellectuals through his plant and had them see the conditions and benefits his labor enjoys and the extent to which Latin Americans are given opportunity to improve themselves and reach high positions in the company? Has he made publicly available the figures on the company's growth, tax payments, profits reinvested, technical and research facilities? In other words, what has he done to promote the broad understanding of the concept of the free enterprise system; to explain in ways that everyone can see and understand what it represents to human dignity, personal freedom, and to a stable and progressive society? Has he convinced all those near him—his workers, suppliers, customers, labor leaders, the clergy—that they who benefit from the system must defend and explain the system to their families and acquaintances?

Thus, our first job is to enlist the businessmen to give the widest dissemination of the real service private enterprise renders to the development of the community.

IV

Our second job is to encourage business to assume more social and civic responsibility in Latin America. Businessmen cannot limit themselves to carrying out only their economic functions. Each must assume community leadership just as he has attained business leadership. He, as a believer of individual initiative which his economic system engenders, must show in his community the fallacies of Marxism and other theories. He must continually work for the advancement of the individual, as only by individual liberty and dignity can the community progress. The businessman must be prepared to give of himself and to apply his talents, energy, and time to projects which will promote better health, education, culture, housing, and sound family structure in his area. Spending money is not enough; personal participation is all important. Richard Nixon, in a speech discussing the role of business in the community said: "We speak of tithing money. I would suggest that you think of tithing your talent. Businessmen have tended in the past . . . to give money contributions and deny what is needed most, their imagination and managerial skill."

It is just such a devotion of resources, imagination, and managerial skill that characterizes the "new breed." A paraphrased excerpt from the constitution of the Venezuelan Voluntary Dividends for the Community expresses well the philosophy of the group and the principles which business must follow:

The conviction that the business manager has the implicit duty to defend the private enterprise system in the economic order and the democratic system in the political order, as these are the systems which guarantee the respect of human dignity and the greatest well-being for society.

The recognition by business leaders of the responsibility of private enterprise in the integral development of man. And to accomplish this the companies and individuals must join together to augment their participation in social and educational activities.

The allotment of part of the profits of the company for social and educational advancement not only is imperative but also is compatible with the philosophies of private enterprise.

The road which business, both local and foreign, must follow in Latin America is thus well marked. Men of spirit and vision are leading the

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way to a bright future for the people of the hemisphere. To accelerate the realization of its noble, imperative goals, this "new breed" must have the enthusiastic cooperation and support of *all* the continent's businessmen in a permanent effort to enhance the common good. Total participation is necessary to demonstrate that private enterprise promises and delivers the fastest and surest progress. And it is only through the conscientious, unstinting donation of time and substance by all companies and individuals that we can protect the freedom and ideals of Western civilization and build a better tomorrow for the children of today's families in Latin America.

Part III

TRADE RELATIONS

Porter Norris: TRANSPORTATION IN THE CARIBBEAN

HAVING BEEN WITH PAN AMERICAN AIRWAYS for nearly 33 years I can assure you that I am better informed on air transportation than I am on surface transportation, but I can also assure you that I do study our competitor's services!

I

Before we look at the present and the future of transportation in the Caribbean, let us look back some years for a quick review of this same area. Mexico, Central America, Panama, Colombia, and Venezuela had a natural relationship with Spain; since this area was conquered by the Spaniards, the language became Spanish, and for years because of blood ties the cultural background became tied to Europe in general. In the lovely string of islands from Miami, Florida, to Trinidad, we have areas that for the same reasons ended up with close ties to England, France, the Netherlands, and Denmark. With the departure of Spain from the Western Hemisphere and the purchase of the Virgin Islands by the United States from Denmark, the cultural ties were with England, France, and the Netherlands—with strong religious ties to Rome in the former territory conquered by Spain.

Let us look at the terrain of Mexico and Central America. It is almost a continuous mountain range, sloping west to the Pacific and east to the Caribbean. In Colombia and Venezuela the mountains practically divide these two countries, making surface transportation very difficult. Sea-ports are available on the Pacific side of Mexico, Central America, Panama, and Colombia. These same general areas have seaports serving the

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Caribbean. Venezuela is blessed with the Orinoco River flowing into the Atlantic to move the iron ore from the mines near Ciudad Bolívar to mills in the United States.

All the large Caribbean islands and many of the smaller islands have seaports. The others are served by small interisland boat companies. Central America has a narrow-gauge railroad running to their respective seacoasts to move their main crops of bananas and coffee. The same is true of Colombia and Venezuela. The Pan American Highway running through Mexico and Central America to Panama is beginning to move cargo and passengers by truck and bus. Pipelines carry the oil to the refineries or to tankers in Mexico, Colombia, Venezuela, and Trinidad. Mexico has well-developed railroads and highways. The sugar and bananas are moved to the island seaports of the Caribbean by narrow-gauge railroads. Bauxite is moved to the seaport in Jamaica by conveyor belts. The so-called "banana republics" as well as some Caribbean islands have adequate steamer service supplied primarily by United States and Standard Fruit steamship lines. Grace Lines serves Venezuela, Colombia, and Panama. Delta Steam Ships serves Trinidad. Trans Marine Transport serves Puerto Rico, carrying up to 50 trailer trucks of cargo per ship. The majority of the islands in the Caribbean have ample steamer service. There are between 75 and 100 sailings from Florida alone to these islands each week.

II

Airline activity began in the Caribbean area in 1920, but Colonel Lindbergh's flight from New York to Paris in 1927 gave commercial aviation throughout the world the shot in the arm that it needed. In 1920 a group of Austro-Germans started SCADTA Airlines in Colombia between Bogotá (airport Giradot) and Barranquilla. The flight took about seven hours to fly 650 miles. By rail and steamer it took a week in the rainy season but as long as a month in the dry season.

Pan American Airways was granted an airmail contract in 1927, starting in October, to fly from Key West, Florida, to Havana, Cuba, a distance of 110 miles. The only other airline in the Caribbean area was West Indian Air Express serving Haiti, Dominican Republic, and Puerto Rico. In 1928 one of the first Mexican airlines, Mexicana de Aviación, was flying Mexico City to Tampico; in the same year it became part of Pan American Airways System. Mexicana started as a charter operation, flying gold and silver payrolls over the heads of Mexican bandits to oil and mining locations.

By December, 1929, Pan Am had expanded its routes to 12,200 and by 1930 its routes in Latin America totaled 18,000 miles, including

Panagra's west coast services from Panama to Buenos Aires, completing 'round South America air service.

As World War II was developing, several small airlines were formed in Central America in which Pan Am became interested and, in turn, offered technical know-how, training citizens as crews. These were: COPA, Panama Airways; AVIATECA, Guatemala; LANICA, Nicaragua; SASHA, Honduras; and LACSA, Costa Rica. We were already affiliated with CUBANA, Cuba; MEXICANA, Mexico; AVENSA, Venezuela; and AVIANCA (formerly SCADTA).

During World War II the planes developed rapidly in size and speed, and pressurized cabins permitted them to fly at higher altitudes. Changes in speed from New York to Buenos Aires were:

1929 - water - 20 days
1932 - air - $7\frac{1}{2}$ days
1940 - air - $3\frac{3}{4}$ days (night flying)
1950 - air - $1\frac{1}{2}$ days
1965 - air - $10\frac{1}{2}$ hours - jet - nonstop

Fares changed also: in 1932 the fare from Miami to Buenos Aires was \$727.00 one-way, and in 1965, \$578.00 round-trip. From Miami to San Juan in 1932 the fare was \$127.00 one-way, but only \$46.25 in 1965.

III

In the early days of commercial aviation, except in Central America (TACA) and in Colombia (AVIANCA), little or no attention was paid to cargo. At first, shipments were of gold, silver, printed currency, baby checks, rice samples, pharmaceuticals, and emergency spare parts. In the postwar years with larger planes the cargoes included just about everything: animals, beef, sea food, flowers, fruits, vegetables, automobiles, fashions, and heavy machinery.

In the beginning our cargo income was only 1 or 2 per cent of our operating revenues. In 1964 cargo amounted to about 12 per cent and in 1965 to over 20 per cent. It is generally agreed cargo revenues will equal or surpass passenger revenues by 1975.

The average jet passenger plane will carry 10,000 pounds of cargo in the belly. Serving Jamaica, Haiti, Puerto Rico, Santo Domingo, Guatemala, Panama, Barranquilla, Maracaibo, Caracas, and Port-of-Spain is the Boeing jet freighter carrying 95,000 pounds at 550 miles per hour. Central American flag stops are San Salvador, Tegucigalpa, Managua, and San José. West Indies flag stops are St. Croix, Antigua, Pointe-à-Pitre, Fort-de-France, St. Lucia, and Barbados.

IV

What about the future of equipment and services in the Caribbean? The entire area will be served with faster, more modern surface ships, especially during the winter months. In the future, I am sure that the interisland passenger traffic, especially short hauls, will be made on high-speed hydrofoil boats, plus the "Hover Craft," a boat traveling over water at a low height on a cushion of air. A British boat has recently been tried successfully in the San Francisco Bay area.

The helicopter aircraft has already proven successful in Colombia. Operated by our affiliate AVIANCA, one can fly over mountains in minutes. To construct a tunnel or build roads between similar locations would cost millions and is therefore prohibitive. Helicopters carrying 40 passengers are already being built. Just imagine such a service in the Bahamas, or between San Juan and Trinidad—especially the Windward and Leeward groups.

At present there are hundreds of people who commute from the northern states to Florida during the winter season, and it takes about 2½ hours flying time. I can foresee in 10 or 15 years hundreds commuting to their winter homes in the Caribbean in an hour's time. This all adds up to one thing. The next quarter of a century will bring a prosperity to the entire Caribbean area never before even dreamed. I can envision export of many vegetables and fruits from the West Indies to the United States, especially during the winter months. As the cost of farm labor goes up, particularly in the Florida area, more and more crops will be raised in the islands to the south.

Many areas will find tourism their main income. Nassau in the Bahamas is a prime example. About 14 years ago they welcomed 38,000 tourists in a year when the season was about three months long. Today their season is year-round, and in 1965 their tourist total will be in excess of 650,000. It is also their largest source of income. Future transportation in the Caribbean seems bright.

**John M. Porges: EXPORTS AND IMPORTS BETWEEN
THE UNITED STATES AND THE CARIBBEAN**

THE CARIBBEAN may be defined as the islands of the British, Dutch, and French Antilles, of Puerto Rico, Hispaniola, and Cuba, as Mexico plus Central America, and as the two northernmost South American countries of Venezuela and Colombia. As a matter of convenience and personal experience, most of my comments will tend to concentrate on the Latin American members of this group. These Latin American members account for over 80 per cent of the Caribbean's trade with the United States; they also have special importance to our discussion because, unlike the British, French, and Dutch islands, their economies are dollar-based and they have historically close ties with the United States as members in common of the inter-American system. Either way, the countries of this area show a high degree of variety in terms of size, relative stages of economic development, and political or trade alignments. Although a major part of their trade is with the United States, most Caribbean countries are attempting to diversify their trade partners and the products each exports in line with efforts to strengthen their generally narrow economies.

I would first like to describe briefly the volume and the direction of this trade, and follow with a discussion of trade policies of the United States and the Caribbean countries, respectively. Finally, I shall venture some observations on political implications of these import-export relations.

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I. Economic Significance of United States/Caribbean Foreign Trade

Trade between the United States and the Caribbean represents both a very substantial dollar volume and a highly significant contribution to the economies of the countries involved. In 1964, the total value of this trade was \$6.45 billion. Twelve per cent of total United States exports and 16 per cent of its imports were with the Caribbean. The Caribbean accounted for 65 per cent of total United States imports and exports with the entire Latin American area. These figures are only part of the story since a much higher percentage of certain essential raw materials and foodstuffs which the United States imports comes from the area; for example, 35 per cent of United States sugar imports, 10 per cent of zinc, 30 per cent of lead, over 50 per cent of crude petroleum, 25 per cent of bananas, and 35 per cent of green coffee. This trade is of even greater relative importance to the Caribbean area for several reasons: first, imports and exports with the United States represent a larger share of the total foreign trade of many Caribbean countries; for example, in 1964, the United States took 48 per cent of the area's exports and supplied 45 per cent of its imports; secondly, foreign trade in most cases represents a larger share of the gross national product (GNP) of the relatively less developed countries of the Caribbean than it does for the United States. I calculate that, for the Caribbean area in 1964, the value of imports and exports combined was equal to 44 per cent of aggregate GNP while the total foreign trade of the United States was equal to about only 7.4 per cent of its GNP.

The pattern of this trade reflects sharp differences between the broadly based and highly industrialized United States economy as opposed to the relatively narrow agricultural or raw material based Caribbean economies. Within the framework of a world free market economy characterized by international economic specialization, trade has largely involved the exchange of United States manufactured products for Caribbean raw materials. In the post-world War II period, economists in the Caribbean and other underdeveloped countries have attributed their backwardness to this trade relationship. By their reasoning, international economic specialization prevents the broadening of their economies with new industry while it helps accelerate the growth and sophistication of the economies of the industrial countries. The result is a vicious circle in which the gap between the developed and undeveloped countries constantly widens. The problem for the lesser developed countries is aggravated by a rate of population growth which is far higher than that in the industrialized countries. This has given rise to a school of thought, particularly in Latin America, which equates this trading relationship with colonialism. However, important policy changes

are evolving both in the United States and the Caribbean, particularly with the creation since 1960 of the Alliance for Progress and of new regional common markets such as the Central American Common Market (CACM) and the Latin American Free Trade Association (LAFTA).

II. United States Trade Policy in the Caribbean

Since World War II, the broad framework of United States foreign trade policy has been provided by the General Agreement on Tariffs and Trade (GATT) and, in an indirect way, by the Bretton Woods Agreements creating both the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development. These agreements were negotiated and signed in the mid-1940's as elements in the general effort to rehabilitate war-torn Europe. At that time, the present needs and problems of underdeveloped countries were difficult to foresee, particularly since most countries in the Caribbean and Latin America had benefited from high wartime prices for their export commodities. Immediately following the war, many showed reasonably strong international reserve position. IMF figures reveal that international reserves for the 20 Latin American republics combined at \$2.8 billion in 1964, showed virtually no increase from the figure of \$2.79 billion in 1948, despite the growth of their international debt and increases in the volume of their trade.

GATT's principal goals are, first to eliminate discriminatory trade practices by its provision that all signatories grant most-favored nation treatment to all others and, second, to reduce barriers to free trade gradually by negotiation. The purpose is to foster, among other things, a multilateral trade system in which free and competitive market forces will assure maximum efficiencies or economies of international specialization.

The IMF is, of course, devoted to monetary problems. By acting as a source of short-term credit to countries suffering temporary balance of payments problems, it was one element of the postwar effort to restore the discipline of a gold exchange standard to international capital markets and to the economies of member countries. In the trade area, this involves efforts to eliminate monetary mechanisms for manipulating imports or exports, such as multiple exchange rates, prior import deposits, and foreign exchange surcharges. Many Caribbean countries consider the IMF an instrument for enforcing the trade system of the GATT because it has served as the key for opening up or withholding other sources of international credit to Caribbean countries with balance of payments difficulties. A conflict has, therefore, developed between the IMF concept on the one hand of correcting international imbalances by

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means of internal austerity programs and, on the other, the tendency in some countries to combat imbalances by foreign exchange restrictions. These restrictions insulate the internal economies against outside forces, and permit internal imbalances to persist.

Political pressures on the United States have grown in Latin America, particularly since Castro's take-over of Cuba, to modify the GATT/IMF system in our trade relations. This has undoubtedly been one of the factors contributing to establishment of the Alliance for Progress. Created by the Charter of Punta del Este in August, 1961, the Alliance for Progress sometimes gives the appearance of being more a unilateral United States declaration than a full alliance of countries with equal and similar intentions. Its major impact perhaps is that it represents a formal commitment by the United States to take a new look at Latin American policy even though the elements of this new look may sometimes seem vague. In practice, the Alliance has developed as an important instrument for bringing new flexibility to United States economic and trade policy with the area. It has accepted the LAFTA and the CACM. As in the case of the European Common Market, these organizations seek free trade among member countries and common trade barriers against the outside world. In CACM's case, one result has been the formal termination of most-favored nation treaties previously maintained by most of the member countries with the United States. The Alliance has also supported creation of new industries in Latin America to substitute locally manufactured goods for those previously imported; this ordinarily results in higher protective tariffs against finished consumer goods from the United States. Within the spirit of the Alliance program, the United States has now adhered to the new international coffee agreement. This is an important United States policy departure because it seeks to support the price of coffee by allocating markets. Also within the spirit of the Alliance, the industrialized countries are giving reluctant consideration to Latin American proposals presented at the Geneva Conference on Trade and Development in early 1964, that the developed countries extend unilateral and exclusive or discriminatory trade preferences to the underdeveloped countries. Finally, most financial assistance under the Alliance is no longer predicated on approval by the IMF of monetary reform programs in the borrowing countries as had been the general rule prior to 1960. This may have sometimes tended to undercut IMF efforts to encourage the adoption of orthodox monetary programs by countries with balance of payments deficits. On the other hand, by thus underwriting long-term balance of payments deficits in some countries, it is probable that the Alliance has enabled United States exports to maintain a reasonably high level to those countries of the area with foreign exchange shortages.

United States direct investment in the Caribbean also plays an important role in determining the pattern and volume of trade. As Caribbean countries have increasingly closed their borders to United States finished goods, United States exporters have been able to maintain their export markets by establishing manufacturing facilities inside tariff walls. These facilities normally import substantial quantities of raw materials and semifinished goods, usually from the United States parents, thus keeping United States exports at high levels despite Caribbean import restrictions. On the other hand, United States imports of petroleum, minerals, and bananas have, to an important extent, been related to United States investment in producing facilities in the area.

Industrialization programs in the major Caribbean countries which seek to substitute locally manufactured goods for those previously imported are affecting the composition of United States exports. The emphasis in United States exports is increasingly shifting to raw materials and semimanufactured goods. In order for the United States to maintain its level of exports, it will probably be necessary to maintain the flow of United States private direct investment into manufacturing facilities which provide natural purchasers of these materials from the United States parent companies. Up to the present, a good portion of direct investment in manufacturing has evidently been financed by accumulation of United States export earnings in foreign tax-haven sales companies, for example, in Panama and the Bahamas. President Kennedy's Revenue Act of 1962, which now taxes an important segment of these offshore earnings, has probably tended to reduce the importance of this source of investment funds. This tax factor, plus President Johnson's foreign investment restraint program, could, between them, have a long-term adverse effect on United States exports to the area if they succeed in significantly reducing the flow of direct investment. As it is, this flow is not particularly large. United States Department of Commerce figures show that, during 1964, total United States direct investment in the Caribbean increased only \$285 million; \$25 million of this was undistributed earnings of foreign affiliates, meaning that this huge area received only \$260 million of net new direct investment that year. Of course, there have been some changes in the composition of direct investment. Disinvestment in mining, public utilities, and petroleum has been offset by increased investment in manufacturing.

III. Caribbean Trade Policy Toward the United States

Trade policy for most Caribbean countries has, during the past 15 years, been increasingly influenced by a body of theories developed by the United Nations Economic Commission for Latin America (ECLA). These theories hold that the existing international free market economy

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and its system of international specialization based on GATT, works to the advantage of the industrial countries at the expense of the under-developed. This is a classic complaint used by farmers the world over against the industrial towns and cities. ECLA economists hold that new advances in technology benefit the industrial countries through increases in wages and profits but do not benefit the agricultural or raw materials producers through equivalent increases in prices for their export commodities. This presumably results in a growing gap between the so-called rich and poor countries.

In the language of the economists, some basic reasons given are: first, the relative inelasticity of demand for primary goods as compared to that for manufactured goods, i.e., the relatively limited ability of markets to absorb increases or decreases in the supply of a given primary product without rather wide price fluctuations; and second, the limited ability of individual producers of primary goods to control total supply in order to avoid these wide price fluctuations. Expressed somewhat differently, the size of market demand for primary products is quite rigid and will not expand appreciably if prices are lowered, or contract if prices are raised; markets are easily saturated and low distress prices quickly prevail if supply exceeds basic demand. Similarly, if supply falls short of basic demand, prices will soar. This results in boom and bust cyclical patterns.

The market for manufactured goods differs in that manufacturers compete not only in terms of price, but also in terms of service, quality, and even public relations. This permits considerable control over prices.

A solution frequently sought by producers' associations or national governments is to withhold excess production of primary products from the market in order to induce high prices. This presents difficulties. In agriculture there tend to be a large number of small producers, none of which individually controls a large enough share of the market to be able to affect price. Accordingly, individual producers will ordinarily produce as much as they can, particularly if market withholding programs make prices attractive. This raises the costs of withholding programs and frequently creates inflationary pressures as in Colombia and Brazil. Furthermore, coffee and other raw materials are usually of relatively uniform quality; if one country withholds coffee from the market, others can normally substitute their own coffee in its place. For example, Brazil's price support program for coffee has stimulated competing production particularly in Africa, thus defeating its purposes and reducing Brazil's market share. While, on the surface, international agreements between consumer and producer countries to control supply and price offer a solution, these have not to date been able to control over-all production under the stimulus of high prices.

Classical economics, represented by the GATT/IMF systems, relies on free market forces to regulate prices and production. Whenever production exceeds basic demand, price weakness will help weed out marginal producers. Capital will shift to other forms of economic activity where the need for it is greater. This, of course, can present political and human problems as has been demonstrated by our own farm problem in the United States.

ECLA offers its own solution to these problems; namely, to alter the economies of the underdeveloped countries so that they will be similar to those of the developed countries, i.e., by industrializing them.

Partially perhaps because of a lack of confidence in the GATT/IMF concepts of free and competitive international markets, ECLA economists by implication tend to reject free private initiative in a free market as an instrument for industrializing the underdeveloped economies. Instead they imply that central planning and government intervention must do the job. Through planned industrialization, ECLA believes the underdeveloped countries will reduce their dependence on imports of manufactured goods and eventually diversify their exports. Programs to this end are being pursued in all Caribbean countries through tariff and fiscal policies to encourage local industries which will manufacture products in substitution of those previously imported. However, large-scale manufacturing seems reasonably economic only in the larger countries of Mexico, Colombia, and perhaps Venezuela, whose internal market are broad enough to support industry. Since markets of the smaller countries are generally too narrow to support large industry, they will probably continue for some time to import significant quantities of United States finished consumer goods.

Since 1950, policies for industrializing the Latin American countries have increasingly revolved about the concept of regional economic integration, principally in the highly successful CACM and in LAFTA, of which Mexico and Colombia are members. Proposals for changing traditional foreign trade patterns are the basis for these regional markets. They hold that, if member countries eliminate tariff barriers among themselves, they thus open up export opportunities to each other for a broad variety of products which were previously imported from the outside world. Stated differently, the member countries will import goods from each other in substitution of imports from third countries. Accordingly, import substitution and export diversification are accomplished at one stroke. The treaties creating CACM and LAFTA repeatedly stress regional trade as an impulse to growth, principally because this furnishes incentives for establishing new industries to produce goods for this trade. The assumption is that, heretofore industry has not sprung up, and economies have stagnated, in the absence of an adequate mar-

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ket; accordingly, the keystone for elaborate regional development plans is an enlarged market.

This assumption seems to have some validity for the very small Central American countries and the Caribbean islands whose individual markets are otherwise apparently too small to support even light industry. CACM has already laid a broad enough market base to support some industry of a type which was evidently not feasible before, and proposals have been advanced to extend CACM to include some of the Caribbean islands. In the five years since CACM's establishment in 1960, trade between member countries has increased more than 300 per cent and an important part of this increase is in manufactured goods.

The rationale for regional economic integration by the larger countries of Mexico, Colombia, and Venezuela is becoming considerably more complex than that for the small Central Americans. Experience with LAFTA since 1960 shows that import substitution for most consumer goods had by that time already reached an advanced stage in the larger member countries. Many of these import substitution industries operated profitably behind high tariff barriers and had little incentive to seek a broader regional market. Existing manufacturers comprised powerful protectionist groups in most countries which opposed the lowering of tariff barriers to competitive products from other LAFTA members. In practice, LAFTA is treated by most member countries as a means for negotiating non-competitive preferences which discriminate against non-LAFTA countries rather than as a means for attaining a truly free and competitive trade area. In fact, there is evidence that an original incentive for creating LAFTA was the requirement under GATT that the large GATT countries in Latin America, such as Argentina and Brazil, eliminate their preferential and discriminatory bilateral trading arrangement for coffee, wheat, lumber, etc. GATT's Article 24 afforded an escape by permitting signatory countries to grant one another such discriminatory trade preferences providing they do so within a customs union; hence LAFTA. When competitive situations arise in LAFTA, affected members may react strongly. For example, when Mexico's export drive resulted in a sharp expansion of its exports to LAFTA for a broad range of manufactured goods such as chemicals, steel pipe, electrodes, machine parts, and so forth, and a substantial trade surplus, other LAFTA members became sharply critical. ECLA's concept of "reciprocity" in LAFTA trade also, in practice, hampers competition. "Reciprocity" provides that, whenever a given country runs a deficit with LAFTA, other members will grant it special trade preferences sufficient to enable it to increase exports to the point where the deficit will be eliminated. This removes responsibility from the deficit country to improve its own competitive stance through greater efficiencies and, in practice, has focused efforts

on the negative objective of eliminating deficits rather than on the positive one of expanding trade.

These difficulties brought LAFTA close to crisis in 1964, and have resulted in some modifications of ECLA theory. The most concrete expression of this modification to date is the proposal advanced in May of this year by four distinguished Latin American economists* for a Latin American Common Market. This "proposal" more fully recognizes the greater complexities of the trade problems of the larger countries than did the original LAFTA proposals. Specifically, it tends to question the assumption that creation of a large preferential common market by itself will result in increased trade and in economic development. It conceives of Latin America as a potentially unified trade bloc for negotiating trade advantages with the outside world. It also recognizes that protectionist interests in LAFTA countries have hampered development of a true free trade zone. The alternatives suggested, however, are more central planning and government economic intervention than under LAFTA, and greater control over free market forces. The one dose of strong medicine is a proposal that tariff reductions between member countries be made automatic rather than subject to negotiation for each product as in the case of LAFTA. Beyond this, industrialization policy, particularly with regard to large capital intensive industries such as chemicals, steel, and machine tools, would increasingly depend on regional planning to eliminate the possibility of establishing competitive and duplicate facilities in several countries. Trade policy with the outside world presents perhaps the most radical new departure of all and the one which challenges GATT free market concepts most directly: namely a demand that Europe and the United States extend to Latin America and other underdeveloped countries unilateral trade preferences for all types of goods, including manufactures. These preferences would not, however, be extended to other industrial countries; that is, they would discriminate against industrial countries thus violating GATT's most favored nation concept. Precedent for this kind of preference exists, of course, in the British, Dutch, and French preference systems particularly as they favor African countries and discriminate against those of the Caribbean and Latin America.

The Common Market proposal is by no means the first time the Caribbean or Latin American countries have requested unilateral trade preferences from the industrial countries. A year earlier, in May 1964, the request was formally presented in Geneva at the United Nations' Conference on Trade and Development by Latin America as a bloc. That Conference served forcefully to bring this request to world attention.

*Felipe Herrera, Raúl Prebisch, Carlos Sanz de Santamaria, and Antonio Mayobre.

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Since then ECLA and the Economic and Social Council of the Organization of American States (CIES) have continued to pursue the matter; but they lack political machinery for making it an effective policy instrument for individual countries. By contrast, the proposal for a Latin American Common Market could develop as a policy tool in the same manner as LAFTA and CACM; that is, it seeks to convert theories into a specific and consistent plan of action.

Besides the LAFTA and CACM movements, several efforts have also been made to develop greater economic cooperation and free trade between the British, Dutch, and French islands of the Caribbean. The now abortive West Indies Federation of the former British islands had shown considerable promise until political strains developed in 1963 over the issue of whether responsibility for supporting the smaller and less economically viable islands would shift from Great Britain to the larger islands, particularly to Jamaica.

Since the failure of the Federation, a new movement has sprung up between the smaller islands such as Barbados, Antigua, and St. Vincent to join British Guiana on the mainland in a Caribbean Free Trade Association. Despite indications that January 1, 1966, would be a target date for its formation, there is little concrete evidence that this Association will move forward quickly.

In June of this year, the Caribbean Economic Development Corporation (CODECA) was established in Puerto Rico for the purpose of encouraging cooperation between, and economic development of, the Caribbean dependencies and former possessions of the developed countries, including those of the United States. The magnitude of CODECA's potential problems are evident if one considers the almost bewildering variety of British, Dutch, French, Spanish, and United States cultural influences involved. The futility of attempting to bring political unity to this diverse group of islands was demonstrated by the failure in June of CODECA's predecessor, the Caribbean Organization, a regional political body similar to the Organization of American States. The small size of most of the islands, their separation by water, the differences in their cultural traditions, their lack of experience in democratic self-government and the heavy economic dependence of some on the metropolitan countries will probably preclude effective free trade associations or the establishment of significant local industries for some years. These islands should accordingly continue to be substantial markets for United States finished consumer goods for some time.

IV. Some Policy Conflicts and Conclusions

The problems posed for United States policy by the new departures in Caribbean and Latin American trade concepts are considerable.

One difficulty is the wide gap which often exists between policy goals and actual achievements of Caribbean and Latin American governments. This gap sometimes makes it difficult for United States policymakers to take seriously all of the goals professed by Caribbean countries. For example, the Alliance for Progress emphasizes the separate economic development programs of individual countries, except in the case of CACM, while ECLA increasingly emphasizes regional economic integration as a tool for development.

North Americans have done little study of the LAFTA movement and this year's proposal for a Latin American Common Market. Almost without our noticing it an "integration mystique" is taking form in Latin America. Although the obvious goal is economic integration in a regional common market, there is also an array of subgoals for "integration" at national levels. These subgoals are the broadening of individual economies as well as achievement of political consenses or social solidarity and "social justice." An important element of the mystique seems to be that the task of "integration" should be exclusively Latin American, that is, United States influence should be minimal.

These Latin American programs for economic integration seem to be efforts to assume initiative within the Alliance for Progress. They perhaps reflect the Latin fear of losing national identities under overwhelming United States influence set off against a desire to maintain the momentum of change and progress made possible by Alliance funds. The Alliance is a political instrument. It is an effort to give Latin America United States-style tools for growth by helping develop some aspects of free enterprise economies on broadly represented democratic bases. ECLA's "integration mystique" seems to represent a political stance in opposition; it seems to contradict United States concepts of the competitive free market place and of partisan competition for votes in fully representative and elective governments. ECLA theories are laid over with many devices which suggest reaction to and fear of North American attitudes. They also show some inconsistencies. For example, ECLA contends that the free world's present economic and trade structure hampers growth in the underdeveloped countries; yet, economic growth rates for some Caribbean countries are now among the highest in the world, for example, in Mexico, Venezuela, and Central America. Another inconsistency is the contention that there has been a long-term secular deterioration in the prices of the products which the area exports; yet, since 1962, prices of most of the region's major export commodities have moved sharply higher. Still another inconsistency is the urgent desire to develop import substitution industries in order to stimulate internal growth and to strengthen the area's balance of payments; yet, there is evidence that import substitution policies, by raising tariffs

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and by tolerating high-priced local production, conflict with export diversification policies which require low, competitive national price structures; the area's balance of payments problems reflect this contradiction as does the stagnation of exports since the early 1950's: total Latin American exports of only \$7.95 billion in 1960 compare unfavorably with total exports of \$7.0 billion in 1950. Finally, and perhaps most important, is ECLA's assumption that the job of economic development cannot be entrusted to "self-serving" private enterprise, that government planning is the key to growth and that competition tends to be destructive rather than constructive. I believe this to be mainly a reaction against United States influence and I believe the record shows that private enterprise continues as a highly dynamic growth factor in Latin America.

The negative cast of these attitudes shows the frustration and defeatism many Latin Americans have felt in their inability to achieve fully their policy goals of modernizing their stagnant societies and economies. Under these circumstances, a major challenge for United States policy will be to prevent political considerations from overriding legitimate economic goals. The burden will increasingly fall to the Alliance for Progress to demonstrate that it is bringing sound economic tools to Latin America and not just a body of often suspect political creeds. It must also treat those policies of Caribbean countries which reflect ECLA theories as alternative and reasonable problem solving techniques. The Alliance has on occasion been doctrinaire, for example, in opposing single party governments despite the pressing need in some cases to achieve a political consensus. It has sometimes condemned military governments despite the pressing need in some of the countries involved to bring stability out of situations obviously degenerating into chaos.

Both ECLA and the Alliance represent points of view well to the left within certain of their respective political contexts, and accordingly show a crusading fervor which may sometimes make compromise difficult. ECLA's theories, despite their apparent political neutrality, are often doctrinaire. The Alliance, typical of most United States foreign policy positions, naturally reflects United States domestic political differences; standing to the left in United States politics, the Alliance at times in the past seems to have reflected a mistrust of private business enterprise although this attitude appears to have been modified more recently. For many businessmen, this has been frustrating, particularly since the overwhelming volume of United States-Caribbean trade has been created by private businessmen. I believe that the dynamic character of this trade is due to the enterprise of the thousands of large and small business people who conduct it.

If the Alliance and ECLA's theories can be treated as efforts to find

solutions to problems, rather than as political rallying points, there should be no reason why they cannot work together effectively.

We already have clear evidence that constructive compromise is possible between ECLA theories, the Alliance for Progress, and business initiative in the experience of CACM. The original ECLA studies for CACM of the early 1950's conceived that, given the broader Common Market, new industry would then serve as the catalyst for growth in Central America's badly depressed economies; but government planning and some restrictions on business competition were considered prerequisites for industrialization. The principal instrument to this end was to be the so-called "regime for integrated industries." This "regime" provides a number of special benefits to approved new industries, including, among others, assurances that competing companies established subsequently will not receive similar benefits for a specified period of time. That is, competing companies were to be effectively excluded for a given number of years. As a condition of obtaining such benefits "integrated industries" were to be subject to stringent official controls on prices, quality, quantity, and so forth.

The "regime" has evidently had an important effect in triggering the wave of new investment which Central America has received the past three years, but for reasons apparently quite different from those contemplated by ECLA. In the beginning, there is little doubt that much new investment was defensive; that is, local and foreign investors moved quickly to establish manufacturing facilities inside CACM before "monopolistic" integration industries could be formed to exclude them. A common pattern was, and continues to be, joint ventures between United States suppliers of consumer goods and their traditional Central American distributors to manufacture or assemble products previously imported in finished form. These, of course, were people with a business interest and a market which they were anxious to keep. The result has been vigorous and dynamic competition. At present, only one integrated industry is operating under the "regime's" benefits. Economic activity in Central America has stepped up remarkably and United States exports to the area have increased nearly by half in the past five years without creating pressures on the area's balance of payments. In this instance, ECLA's studies provided a key with which Central America has broken its pattern of stagnation, while the Alliance for Progress and private enterprise have provided the impetus for dynamic growth.

The difficulties encountered so far by LAFTA suggest that the ECLA formulas which helped Central America break its pattern of economic stagnation may not be directly applicable to the larger countries of LAFTA. ECLA's definition of Central America's economic growth problems seems quite accurate, namely, that the small size of the separate national

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markets was a barrier to growth since each country by itself could not support certain key types of economic activity requiring minimum economies of scale. By implication, ECLA seems to have assumed that this same problem existed in the larger countries such as Mexico, Colombia, Venezuela, and others of South America, without allowing fully for their significantly more advanced economic development. Many of the larger countries have probably already passed the undeveloped stage in which Central America found itself in 1960; depending on the criteria used, some of them already have relatively broad industrial bases as, for example, Mexico.

I believe that the next barrier which the larger Caribbean and South American countries must cross is lack of confidence in the ability of their industries to compete in world markets. The negative marketing attitude of Latin Americans may well be a more serious shortcoming than the lack of technical skills. A study released in April of this year by CIES shows that Latin American exports of manufactured goods between 1955 and 1962 expanded only 17 per cent as opposed to an expansion of 46 per cent over the same period by the other underdeveloped countries. These statistics are particularly revealing when one compares the relatively advanced economic condition of Latin America to that of some other underdeveloped regions such as parts of Africa. Industries in the larger Caribbean countries have developed behind high tariff walls. Industrialists have assumed for years that they could not survive without this protection. I am certain that most of my business colleagues have often seen our Latin American counterparts opt to restrict production in order to keep sales volume low and prices high, even when presented with clear opportunities for dynamically expanding their markets by lowering prices and raising volume. This even happens on occasion with United States subsidiaries in the Caribbean. Many of the larger countries, then, are probably reaching that point in their industrial development where saturation of internal markets, as now structured, could result in a slowdown of the high industrial growth rates of the past. They must now seek broader markets and this involves competing more aggressively for the consumer's purchasing power not only in their own countries but also abroad, both in terms of price and quality. Mexico has shown this can be done by expanding its exports to LAFTA. The success of Puerto Rico, in the United States market, though admittedly a special case which has been made possible by United States companies producing for export to the mainland, demonstrates that there is no mysterious and insuperable barrier inherent in the economic condition of developing areas to prevent them from competing abroad.

The proposal advanced in May of this year for a Latin American Common Market, which I have already mentioned, shows some interest-

ing departures from previous ECLA assumptions by recognizing the complexities of the trade problems of the larger countries. Unfortunately, the proposal does not prescribe competitive free enterprise as a tool for economic development; in fact, in a variety of ways it implies that competition will be destructive: first, in restating the need for unilateral trade preferences from the industrial countries; second, in a complicated formula, previously developed by LAFTA, for insulating the lesser-developed Latin American countries from open competition with the relatively more developed; and third, in a common investment policy particularly for large capital-intensive industries such as chemicals, petrochemicals, steel, machinery, and others, to assure, by central planning, that competing and duplicating production facilities will not be established.

This last proposal, for a common investment policy, does recognize that foreign private capital and technology must play an important role in Latin America's next phase of developing heavy industry, simply because Latin Americans themselves lack the capital and skills; but the proposal shows little interest in private enterprise per se as a creative and dynamic force. However, as in the case of CACM, if United States enterprise is given the opportunity, I believe it can contribute significantly to economic integration and development. As in CACM's case, this would probably result in modification of some of ECLA's more extreme political attitudes.

Some dangers, nonetheless, exist for private capital. In the area's next stage of industrial development, capital intensive industries such as heavy chemicals, petrochemicals, and steel will receive most attention in the larger countries. Traditionally, capital intensive industries in Latin America such as petroleum, mining, and utilities have been politically vulnerable when owned by foreigners or even by private citizens. Accordingly, United States industry will be under pressure to take not only local partners but also, in many cases, local governments as partners. In Mexico and Venezuela, petrochemical development is officially reserved to the respective governments even though the need for technical skills and capital is resulting in acceptance of private United States and European participants. In some cases, international competition has forced Latin governments to seek foreign capital; for example, the aggressively competitive new private petrochemical complex rising in Puerto Rico has undoubtedly contributed to Venezuela's decision to drop its former insistence on full government control of the industry since experience shows that the government cannot develop petrochemicals fast enough by itself to gain a competitive place in the Caribbean market.

United States government policy could undermine the quiet but con-

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structive role which enlightened private United States industry is now playing in developing these capital intensive industries. Two examples are: first the disincentive to United States direct investment abroad implied in the Kennedy Revenue Act of 1962 which taxes the offshore earnings of foreign United States affiliates in so-called tax havens; and second, President Johnson's foreign loan and investments restraint program. A more subtle potential danger may exist in President Johnson's suggestion that the Alliance for Progress actively support creation of an integrated Latin American fertilizers and pesticides industry along the lines of the European coal and steel community. As already mentioned, the Alliance is politically somewhat suspect in Latin America; it is most acceptable as a contributor of cheap, long-term capital. However, if Alliance capital were made available to Latin American governments for these industries, this could result in exclusion of private United States capital. If, on the other hand, the Alliance simply attempts to influence Latin planning without contributing capital, it could trigger reactions against United States investors by those Latin governments which are particularly sensitive to excessive United States political influence. I feel the Alliance might better concentrate on schools, hospitals, and other social overhead projects while encouraging United States business to take the initiative in the industrial area; this could include United States income tax incentives for direct investment in Latin America and effective foreign investment guarantees.

Latin America's request for preferred trade access to the United States market is a more difficult problem. It is inconsistent: existing preference systems involving the former British, French, and Dutch possessions are colonial vestiges; most Latin American governments, of course, claim that they wish to eliminate such colonial vestiges and reduce their economic dependence on the industrial countries. Many are, for example, deeply suspicious of the economic relationship between the United States and Puerto Rico even though a cornerstone of this relationship is unrestricted Puerto Rican access to the United States market and even though Puerto Rico has opted for this system by the ballot box. In a sense, unilateral preferences from industrial countries would contradict Latin America's movement toward economic integration. LAFTA members might well be able to achieve their objectives of expanding exports of manufactured goods painlessly through preferential access to the markets of Europe and the United States without giving up concessions in return; but, if they do, the incentive will be reduced for them to expand LAFTA trade where each member must also give up concessions to the extent it benefits in receiving them. Furthermore, Latin America's problem of finding new external markets is probably medium or short term, whereas the extension of unilateral trade preferences establishes

long term almost permanent precedents which would be hard to break.

As already suggested, a major impediment to Latin American exports of manufactured goods is the negative or defeatist marketing attitude of Latin Americans themselves. I suspect a good solution might be for Latin American governments to encourage United States and local enterprise to demonstrate its export marketing skills. This could involve more critical official attitudes toward high internal prices, plus tax and financial incentives for exports such as those already available in Mexico and Colombia. Equally important are internal policies favoring price and currency stability.

In concluding, the great economic importance of the United States trade with the Caribbean must inevitably lead to differences in our respective interests and policies. The potential for disagreement is enhanced by the cultural and economic differences existing between us. Finally, efforts to initiate far-reaching economic and social change, particularly in Latin America, in order to overcome its economic stagnation, have obscured many of the guideposts traditionally relied on in our relations with the area; policymaking has become far more complex and difficult. From a trade viewpoint, the Caribbean will, of course, continue a vital supplier of strategic raw materials such as petroleum and non-ferrous metals; however, the area will also increasingly demand access to the United States market for its manufactured goods and will import fewer of our finished manufactures; but purchases of raw materials by the Caribbean will increase. For alert United States business people, the changing composition of this trade will offer new opportunities, particularly since it should be accompanied by accelerating economic growth in the Caribbean and an increasing potential for a larger volume of trade.



Robert Coulson: COMMERCIAL ARBITRATION

ONE OF THE BARRIERS to increasing commercial activity in the Caribbean—caused partially by national boundaries and by the sparkling sea—is the businessman's fear that contractual obligations will not be met.

The buyer fears that the goods—be they sandals or coconut oil, or be they electronic components or pharmaceuticals—or even instant tortillas—will not be up to expectations. The seller fears that he will not be paid, because the buyer will refuse the goods as inferior.

This fear is not unique to the Caribbean. And it does not concern the *foreign* trader only. The real fabric of commerce depends upon faith that obligations will be met.

World businessmen and their trade associations must find methods to assure contract performance. The method that I shall discuss here is private arbitration. And I shall try to explain what it is, what it does, and what needs to be done about it. Another method for compelling performance within an industry is to use discipline, through the industry trade association. This method is often effective. But if discipline is to be applied fairly, and receive acceptance, it must incorporate impartial machinery for making factual determinations in those situations where an issue exists as to contract performance.

When one business deals with another, there is always a possibility of dispute. Either a party has promised more than he can perform, or market conditions or other circumstances have changed. That is why the prudent American businessman uses arbitration in commercial contracts of many kinds.

II

No one knows how many contracts contain arbitration clauses. Even my own agency, the American Arbitration Association, sees contracts only when a demand for arbitration is filed with one of our 18 regional offices.

In the United States, arbitration clauses are employed so routinely and operate so unobtrusively that many managers are unaware of how often their own organization's contracts specify arbitration. There are definite advantages.

Judge Learned Hand once stated, "In trade disputes, one of the chief advantages of arbitration is that arbitrators can be chosen who are familiar with the practices and customs of the calling, with current prices, what is merchantable quality, and what are the terms of sale."

The arbitrator may be an expert in fabrics who determines whether a sample is sleazy. Or he may be an engineer who decides whose fault it was that a roof caved in. A final and binding arbitration award can often be obtained within a few months. Court process often takes longer. A company's credit and reputation is less likely to be endangered, as it might be in court, since there is no public airing of the dispute. Arbitration hearings are private. There are other advantages. All of them have been long known and understood in the United States. And for many years businessmen have tried to make arbitration available throughout the Americas.

An Inter-American Commercial Arbitration Commission (IACAC) was created in 1934 to provide machinery which businessmen in the Americas could use. Sponsored by a resolution of the Seventh International Conference at Montevideo, endorsed by the Pan American Union, the Commission set up national committees and panels of arbitrators in each of the American republics.

This agency has been operating ever since, and is utilized in thousands of commercial contracts as an impartial agency for processing commercial disputes. It is private and it enjoys the sponsorship of the American Arbitration Association.

Financial support of IACAC comes from private donations, and from administrative fees which are payable only when a case is actually filed.

I will not take your time to describe IACAC. You should simply note that appropriate machinery has been available for over 30 years, and that the machinery is operational. I will send literature to anyone who wishes to know more about IACAC, or how to use its services.

III

I believe that there will be an increase in the use of arbitration in the Caribbean. Some changes in Caribbean business practices seem relevant.

The *Wall Street Journal* recently reported that "U.S. exporters are increasingly selling and billing foreign customers directly on 'open account,' just as they do with nearly all domestic buyers. On such selling, the goods or services are charged to the customer's account for payment at some future date. Its use in overseas transactions is in marked contrast to the traditional practice of requiring confirmed and irrevocable letters of credit, under which the customer's foreign bank and the exporter's U.S. bank assume the risks and guarantee payment. These letters of credit are more secure ways of doing business, but they are costly, time-consuming and irksome to many customers."

This change in practice will sharply increase the importance of the foreign buyer's credit reputation. This is one good reason why arbitration will be used in contracts, because the agreement to arbitrate will be taken as an assurance that contract obligations will be met. If the parties do disagree, they have at least provided the most efficient and prompt method for getting a final decision on their disagreement.

Do not misunderstand me. The arbitration clause is no substitute for stringent credit arrangements or for the most satisfactory quality checks that you can negotiate. But each transaction presents its own bargaining potential. Terms and conditions in a particular deal may mitigate against letters of credit or unilateral veto powers. The arbitration clause, as an assertion of good faith, has helped business in many areas. It should be available in the Caribbean. But is it?

IV

Private arbitration is a creature of three parents—of a contract, of benign legislation, and of industry support. Where all three parents are present, the institution flourishes. Where one is absent, arbitration is abortive.

Many contracts which refer disputes to arbitration are now in effect involving Caribbean commerce.

Arbitration clauses are unobtrusive. No disputes occur as to the overwhelming majority of contracts. Even where disputes do occur, they are generally settled by the parties involved on some reasonable basis. It is only in a very few instances that a case must be brought to our Association—certainly less than one in thousands.

In the other contracts, the arbitration clause is working for the parties. But what kind of cases are actually arbitrated? I will give some examples.

Several years ago, we received a case in which a New York importer refused to pay for several hundred flasks of quicksilver, claiming that they were not delivered in time to be used. The quicksilver was manufactured in Panama. A panel of three arbitrators, one a Canadian chemist, one a Mexican lawyer, and one from a New York bank, determined that the delay in delivery was excusable because it resulted from a dock strike in New York. The purchase price was paid to the Panamanian manufacturer two months after the case was filed.

A more recent case involved a license agreement on the manufacture and sale of musical instruments. One party was Jamaican and the other was also from the Caribbean. But they both agreed to hold the hearing in Miami, where the matter was heard before a lawyer-arbitrator who had represented clients in that industry. Two hearings had to be held, because certain additional accounting records were required before a determination could be made.

These are typical cases. Other disputes have involved foreign franchise licenses to operate hotels, or contracts to provide service functions, or to design and maintain processing plants.

Many disputes arise over North American investments abroad. The Agency for International Development now has an arbitration clause in its Contract for Investment Guarantees, under the Foreign Assistance Act. It provides for administration by the American Arbitration Association.

As you know, United States exporters may obtain protection against restrictive currency regulations, changes in exchange rates, and internal political acts from an insurance program set up three years ago. Provided jointly by the Export-Import Bank and by the Foreign Credit Insurance Association (FCIA), the program covers exporters on up to 85 per cent of their loss from any commercial risk, and up to 95 per cent on losses from political causes.

About 3,000 companies are now insuring export loans with FCIA, double the rate at the start of last year. Insurance in force has climbed from \$660 million to more than \$1.5 billion during that time. Perhaps 10,000 companies will be participating by 1970.

It seems reasonable to expect that exports and investments on open credit will increase as a result of this insurance. Each such sales order or investment contract should be reviewed for inclusion of an appropriate arbitration provision. For one thing, arbitration may provide a prompt method for determining the insured loss.

Joint venture agreements, under which a North American firm shares equity ownership of assets with a group of foreign nationals, are also subject to quarrels among investors. Deadlocks at the control level may arise. Arbitration is particularly suitable for resolving this impasse.

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The disadvantages of having to litigate in a foreign court do not have to be spelled out to this audience. Long court delays, caused as often by technicalities as by court congestion, are encountered even in the best of judicial systems. Whatever may be said with regard to the hazards of going to court in any one country can be multiplied by the many countries in which a businessman must deal. The laws of each Caribbean country are likely to differ from those of its neighbors.

V

Thus far, I have been speaking only of arbitrations between private individuals or corporations. Increasingly, foreign investment involves private corporations and governments. The procedural arrangements recently proposed by the World Bank appear to me to be well suited for this type of controversy.

The Committee on International Law of the Association of the Bar of the City of New York recently urged that the United States ratify the World Bank Convention.

The Committee on International Law has followed closely the development of the World Bank Convention on the Settlement of Investment Disputes, which it regards as an extremely competent work that reflects thorough consideration of the difficult problems involved, and adroitly reconciles the interests and viewpoints of diverse states. The Committee urges prompt ratification of the Convention by the United States. It believes that the Convention can make a significant contribution to the encouragement of foreign investment, and ultimately to the maintenance and promotion of the rule of law in international disputes.

I would recommend this Convention for consideration by all Caribbean countries.

In the United States, it has been demonstrated that in order for commercial arbitration to be used in any volume, a modern arbitration law is necessary. Fortunately, in most commercial states, such a law has been passed. Twenty-two states now have such laws. This includes Florida, which has an excellent arbitration law, patterned on the Uniform Arbitration Act. There is also an effective Federal Arbitration Law, which applies to disputes involving interstate commerce.

Under common law and under some obsolete state arbitration statutes, agreements to arbitrate *existing* disputes were valid and enforceable. But states which have not yet passed a modern arbitration law have failed to provide an important benefit to local businessmen. Although every other provision of a contract may be specifically enforced by local courts, voluntary agreements to arbitrate future controversies can be

ignored by one party, and the other party has no legal avenue of enforcement. Therefore, the benefits of arbitration are not fully available to local businessmen.

Such states lag behind in this respect. Unless each party can be required to comply with its agreement to arbitrate, the process will not be commonly used. I know whereof I speak since my agency handles almost 12,000 cases each year.

Most major trading countries recognize arbitration clauses. The British and the French, and nearly all European countries do. The 1812 Cádiz Constitution of Spain provided that no Spaniards could be deprived of the right of agreeing to "terminate their differences by means of arbitrators chosen by parties." Costa Rica and El Salvador have similar provisions in their constitutions.

But the Napoleonic Code provided only that agreements to arbitrate *existing* disputes would be enforced—and this provision was widely copied into Latin American codes.

In 1933, the Seventh International Conference of American States recommended, among other matters, that each participating country pass legislation to recognize future dispute clauses. Colombia did so in 1938. But otherwise the response was disappointing.

Then in 1956 the Draft Uniform Law of the OAS Inter-American Council of Jurists reasserted the view that commercial arbitration should be made available. In 1963, Ecuador passed a modern arbitration law. But again, the reaction by other American states has been disappointing.

A large part of the blame can be allotted to the United States, which has neither adopted the 1958 United Nations Conference on International Arbitration nor taken the initiative in leading other American countries to pass the Inter-American Uniform Arbitration Act.

The American Bar Association on the other hand has consistently supported modern arbitration legislation. It supported the Federal Act. It supported the Uniform Arbitration Act. It supported the 1958 United Nations Convention.

But the State Department has neither persuaded other nations to pass such legislation nor has it been able to get our own government's ratification of the United Nations Convention. In fact, we have not yet even ratified the World Bank Convention on the Settlement of Investment Disputes.

Many authorities believe that the United States should adopt the 1958 United Nations Convention on Foreign Awards and exert its influence on other American governments to do the same.

One expert, Marvin Goldman, in an article soon to be published in the *Inter-American Law Review*, has criticized the United States for its failure to act. But he also notes that Latin American businessmen and

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legislators seem indifferent to the advantages of a uniform arbitration system.

Several of the Conference speakers have described one of the unique problems that face a large international corporation that seeks to do business in Latin America. Although these corporations are often thought of as North American, in reality they are international corporations which operate throughout the world. There are about 200 of these organizations.

It was pointed out that when they do business in Latin America they are immediately confronted with the fact that it is the local government which represents the groups with whom they must do business. For instance, the government represents the workers, rather than the union. It is the government that represents the consumers, rather than the Better Business Bureau or other consumer groups. It is also the government that represents their suppliers. This fact surely indicates a motivation for such corporations to prefer private arbitration, since arbitration by providing a private method of resolving disputes insulates the dispute from government interference. Such corporations, should therefore, consider how to encourage legislation that would make arbitration available to them, to their customers and their suppliers, and even perhaps to the organizations that represent their employees.

Now I want to confess to you that I do not really know what goods are being loaded into the ships of Montego Bay, or flown by Pan Am air freight to Port-au-Prince, or purchased for Caribbean use with Morgan Guarantee money. I am quite ignorant of these things. But I do know this—more and more businessmen in the United States, in more and more lines of trade, are finding in arbitration a way to settle disputes without having to take one of those long, enervating detours to the local court house. If it works in Chicago, why not in Managua? If it works in Miami, why not in Panama?

VI

In 1957 the Inter-American Council of Commerce and Industry in Buenos Aires considered what factors were impeding the growth of inter-American trade. They stated them:

That lack of uniformity in legislation on commercial arbitration is a hindrance to trade. . . . Arbitration, as a means of solving commercial litigations between businessmen should be extended by including the clause of the Inter-American Commercial Arbitration Commission in inter-American contracts.

Again, more recently, arbitration has been recognized as essential to economic integration in Latin America. The new Common Market

Treaty for Central America, signed on December 13, 1960, by Guatemala, El Salvador, Honduras, and Nicaragua refers to the arbitration clause in the Multilateral Treaty of Free Trade in Economic Integration, of June 10, 1958.

It seems that every time inter-American commercial statesmen meet, they applaud the principle of arbitration. But then they go home—and they forget to take action.

Perhaps each of us should prod his own government to act. It is a popular movement. No businessman will argue on the side of maintaining controversy. Every lawyer will urge his clients to settle disputes, if possible.

Arbitration is not an empty and impractical concept. It is a well-used tool for investments and for business. Justice is too important to be left solely to government. There is a private way. Why not use it in the Caribbean?

Part IV

CULTURAL RELATIONS



**John M. Stalnaker: THE EXCHANGE OF PERSONS
PROGRAM OF THE DEPARTMENT OF STATE
WITH THE CARIBBEAN AREA**

THE WORLD is in ferment today. It is no exaggeration to say that one can see evidences of this wherever he turns. Expansion in knowledge, in means of communication, in scientific developments including the important field of medicine, and in population has advanced at a rate never before known. The peoples of the so-called underdeveloped nations are learning that health and material comforts are attainable, that some nations have much more of these things than others, and that education is the key to both individual and national development. The good things of life, whatever we care to define as "good," are not the exclusive right or property of any one race, religion, or nationality, nor are they out of reach.

Education is the key element in the advancement of people—in health, wealth, and in ability to realize their own potential. Education broadens horizons and makes possible developments otherwise unattainable. Nations develop primarily through the efforts of talented individuals. All nations possess raw, undeveloped talent. For it to be productive, education is the essential ingredient.

It is little wonder therefore that the interest in education and the faith in its power are increasing throughout the world today. How can we make the access to higher education open to increasing numbers of individuals? How can we discover raw talent and develop it into its productive stage? The oft-repeated, prophetic words of Alfred North Whitehead can bear still another repetition. "The rule is absolute: The race which does not value trained intelligence is doomed. Not all your

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heroism, not all your social charm, not all your wit, not all your victories on land or at sea can move back the finger of fate. Today, we maintain ourselves. Tomorrow, science will have moved forward yet one more step, and there will be no appeal from the judgment which will then be pronounced on the uneducated."

✓ Many of the nations of the American republics are today facing a turning point in their history and hence in their relationships with the rest of the world, including especially their near neighbor, the United States. They are undergoing a period of rapid and intensive social, economic, and cultural change. At the same time, as they struggle to rebuild their societies, they are being subjected to hostile ideological forces bent on inspiring uncertainty, unrest, and disorder.

✓ The establishment of the present Communist-controlled government in Cuba has cast a shadow over the entire Caribbean area—indeed over the entire hemisphere. The relentless pressures from Cuba to stir up unrest and disorder throughout the area have introduced a new force in the affairs of the hemisphere which have indeed given added significance to the growing programs of educational and cultural exchange among the peoples of the governments of the free nations of the area, between the United States and the Caribbean area, and among the Caribbean countries themselves.

I

The exchange between countries of students, secondary school teachers, professors, lecturers, and researchers is one important way to encourage advancement in education and to increase the understandings among the people in different nations. In the United States we are educating today a high proportion of each new age group and that proportion is increasing every year. Almost all our children now advance through the first five years of elementary schooling, and of those who complete the fifth grade about 71 per cent graduate from the secondary school and more than half of these enter college. Our colleges are showing a sharply increased interest in having foreign students in residence. The value of the exchange is beneficial to both host and visitor.

While the scholarly exchanges of the United States government are largely those under the jurisdiction of the Board of Foreign Scholarships, these exchanges we must recognize constitute only a fraction of those which are going on, less than 5 per cent. More than 91,000 foreign citizens were in American colleges and universities during this past academic year, according to a survey in the Institute of International Education, and less than 4,000 were in the Fulbright program.

Much of the value of these programs has rested on the fact that they were broadly conceived from the start, rather than being founded by nar-

rowly nationalistic goals. Government-sponsored exchanges, like those made under private auspices, are made for the purpose of advancing knowledge and thereby improving hemispheric understanding. The principle has become well established that when a citizen of the United States is granted a Fulbright award for study in a Caribbean country, he is a representative of his country in only an unofficial sense, really little more than any tourist might be so construed. The Board of Foreign Scholarships has always considered this to mean that he is a representative in the sense of representing the American intellectual and scholarly community and in no sense as a spokesman or advocate of American foreign policy. There is a diplomatic service for this purpose. The acceptance of a Fulbright grant, therefore, in no sense carries with it the responsibility to defend the wisdom of any action of the United States Government. The grantee is in fact a private citizen free to agree or disagree with foreign or domestic criticisms of American policy and is limited only by his own judgment, discretion, and professional responsibilities.

One of the strengths of the pluralistic society in the United States is the power of dissent. We have seen this demonstrated in recent weeks in the manner of forums, from the halls of Congress to the teach-ins on national television. We feel that a basic contribution of our educational and cultural exchange program can be to demonstrate to visitors to the United States, as well as to our grantees abroad, the nature and character of this and other aspects of our society. It is through the variety of individuals who apply for and are given grants that the diverse character of our society and institutions can be demonstrated.

II

The purpose of the Educational and Cultural Exchange Program, supervised by the Board of Foreign Scholarships, is set forth in the Mutual Educational and Cultural Exchange Act of 1961—commonly known as the Fulbright-Hays Act. It is “to increase mutual understanding between the people of the United States and the people of other countries by means of educational and cultural exchange; to strengthen the ties which unite us with other nations by demonstrating the educational and cultural interests, developments, and achievements of the people of the United States and other nations, and the contributions being made toward a peaceful and more fruitful life for people throughout the world; to promote international cooperation for educational and cultural advancement; and thus to assist in the development of friendly, sympathetic, and peaceful relations between the United States and the other countries of the world.”

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The view of the Board of Foreign Scholarships regarding the rule of "The Exchange of Persons" in international affairs is stated well in a report it made to the President several years ago:

With the world divided into two competing ideological camps, it has been apparent for many years that the only real solution to the stalemate that confronts mankind lies in greater mutual understanding among nations. The threat of war, with its disastrous implications in the nuclear age, must be attacked at its source—in the hatred, ignorance, and prejudice that separate peoples everywhere.

Comparatively recent revolutions in transportation and communication have brought peoples closer together. But they have also served to demonstrate the deeply ingrained prejudices that centuries of inter-cultural isolation have nurtured and the calculated distortions of our enemies have inflamed. . . .

By creating new lines of international communication and by facilitating the exchange of ideas, the educational exchange program is helping to develop the atmosphere of trust necessary for the peaceful settlement of international disputes.

With special reference to the other American republics area, President Johnson has said, "Next to keeping the peace—and maintaining the strength and vitality which makes freedom secure—no work is more important for our generation of Americans than our work in this hemisphere."

III

The Caribbean area (Mexico, the six Central American countries, Columbia, Venezuela, the island countries of the area, the Guianas, and British Honduras) has long played a central role in shaping not only the political and economic relationships between the United States and the countries to the south but our intellectual and cultural relationships as well. They have been a cultural bridge, so to speak, between North and South.

In our contacts over the years with the Caribbean area different cultural and institutional patterns have created some misunderstandings. At the same time continuing channels of communications and cultural relationships, which have grown over the years, have built a reservoir of good will and understanding between the United States and the other nations of the Caribbean area. In the eighteenth century, philosophical principles that shaped the wars of independence across the entire hemisphere opened the modern period of intellectual communication between North and South. Miranda and Bolívar in Venezuela, for example, not

only read and followed closely the events of our American Revolution but visited centers of our intellectual and cultural life to exchange views with the leaders of our own newly established republic. As new republics were established in the first half of the nineteenth century throughout Latin America, including the Caribbean area, embassies were established in Washington as were ours in their capitals, and this opened new channels of intellectual and cultural communication. By the middle of the nineteenth century, although the audience was still quite limited, both we and they began to learn more about each other. A rich harvest of historical and travel books about Mexico, Central America, and the Caribbean islands appeared in the United States in that period. In the second half of the nineteenth century, although diplomatic issues and their consequences overshadowed our other relationships with the area, the process continued.

Although these cultural and educational ties go back to the earliest years of our country, the official exchange of persons program under the sponsorship of the Department of State did not begin until the decade of the 1930's—following the Convention for the Promotion of Inter-American Cultural Relations signed in Buenos Aires in 1936 and ratified by the Congress of the United States in 1938. The other American republics were the first countries with which these formal exchange relationships were begun. Exchange of persons programs conducted by the Department of State have subsequently expanded in number and throughout other areas of the world, inspired in large part by the experience in this hemisphere—as a result of the Fulbright Act of 1946, the Smith-Mundt Act of 1948, and the Fulbright-Hays Act of 1961. Other legislation has also had an important influence in the development of these programs.

Since 1961 the Alliance for Progress has focused attention in both continents more directly than ever before on basic social and economic needs—and hence on human resource development. It has helped to bring more clearly to view the fact that educational development lies at the base of economic and social development.

It has also brought new attention to the fact that a people's cultural aims and achievements reflect and reinforce their national spirit and national purpose. The Alliance has accordingly emphasized the various means by which the basic aspirations of their nations can be more clearly realized.

In the years since 1961 when President Kennedy announced his concepts of the goals of the Alliance, the United States government has planned its various exchange activities—and emphasized within them—with the broad goals of the Alliance in view. The effort has been to make the long-established categories of exchange with Latin America serve to

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the fullest extent possible the purposes of the Alliance. The concept of the Alliance has been an important influence in stimulating new approaches to and shaping the directions of the exchange program between the United States and our neighbors to the south.

IV

The level of the government's exchange of persons program with Latin America has increased substantially since 1961. From this fiscal year through fiscal year 1964 the number of individual grantees has increased by approximately 30 per cent. Funds have been increased for government-sponsored programs relating to Latin America over the past several years.

While approximately 5,000 grantees from Latin America came to the United States under the program during the period 1949 to 1960, those who came during the three-year period from 1961 through 1963 totaled almost as many. The increase in the flow of grantees from the United States to Latin America in the last few years is also impressive. In the decade from 1949 to 1960, approximately 1,000 Americans went to Latin America under the program, while in the three-year period from 1961 to 1963 almost as many North Americans participated in these exchanges.

The 1965 program with Latin America represented a total of 3,152 grants. Many were supplemented by funds from private resources. Of the total, 2,655 were grants to Latin Americans to visit the United States, and 497 were for United States grantees to visit Latin American countries. Additional exchangees participated in activities carried out under a number of arrangements with universities and other private agencies.

In broad terms the program consists of: (1) grants to leaders and specialists from the other American republics area in government, the professions, labor, civic affairs, journalism, education, and the creative arts; (2) exchanges of professors, teachers, research scholars, and university students, with emphasis on the social sciences and other fields related to the needs of societies in transition; (3) English-language teaching programs, including efforts to encourage participation by students in these countries from the rising lower middle class; (4) the use of visiting Americans with "specialist" grants to lecture and conduct seminars; and (5) special seminars at universities in the United States and in Latin America for students, school teachers and administrators, and university officials.

The various types of grantees included under the program fall into two categories: (1) academic exchange grantees (university graduate stu-

dents, teachers, professors, and research scholars to and from the United States—in eight countries these programs are carried out under Binational Fulbright Commission programs), and (2) grants to international visitors of a non-academic type (leaders, specialists, and Educational Travel grantees from Latin America, specialists to Latin America, and participants in a number of seminars assisted in the United States and Latin America).

A number of grants in the various categories which I have referred to are related to special types of activity. For example, in several countries interuniversity arrangements receive financial support under the program. In two countries Junior-Year-Abroad projects are assisted. The Educational Travel groups, consisting of student leaders, young teachers, and young professionals, represent specific fields and entities of significance in their countries. A number of seminars are carried out for Latin American teachers, including workshops in Puerto Rico, special seminars in the United States, and a regional seminar in Central America for Central American teachers of social studies, in addition to the more formal six-months teacher development programs. Various seminars are held in Latin America and in the United States on such topics as American studies, university administration and current political issues, within the framework of both the academic and non-academic programs.

In 1964, in response to the growing interest in Latin American studies in this country, the Department increased the number of opportunities for qualified graduate students from our universities to attend universities in Latin America. Under this program 90 students received government grants for the 1964-65 academic year, and for the 1965-66 academic year the program was increased to include 120 grants.

Some 42 binational community-sponsored schools in the other American republics receive support annually under the educational exchange program of the Department—primarily for teachers' salaries, scholarships to deserving Latin American primary and secondary students to enable them to attend the schools, and for teaching materials. Approximately 70 per cent of the students enrolled in these schools are Latin American, the remaining 30 per cent are children of United States citizens residing in Latin American countries. Some of these schools serve as demonstration schools and training centers for teachers in the communities in which the schools are located, thus contributing to the educational systems in these countries. During the period from 1943 through 1958, the average annual amount provided to assist these schools under the Department's program totaled approximately \$180,000. Since that time, there have been varying annual increases with the amount for fiscal year 1964 totaling approximately \$1 million.

Another important activity under the Department's program is the

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Cultural Presentations Program, which has assisted in making possible tours of the area by, for example, the Robert Shaw Chorale, the University of Illinois Symphony Orchestra, the St. Joseph's College of Philadelphia basketball team, and, next year, the Philadelphia Orchestra under Eugene Ormandy, to name but a few. And there are multilateral activities, such as those conducted through the Organization of American States and UNESCO, in which the Department actively cooperates.

At the same time, other programs with the Latin American area—governmental and nongovernmental—support significantly the work of the Department. On the governmental side, the Peace Corps, and AID through the Alliance for Progress, and on the private side, an increasing number of universities and colleges, and private foundations, such as Ford, Rockefeller, and Kellogg, are operating extensive programs related to academic exchanges, university development, and general educational and social assistance. It is a work of many hands. In all these activities United States schools, colleges, and universities, private foundations, labor organizations, corporations, service clubs, religious organizations, professional groups, and individual citizens throughout the country are making enormous contributions in many ways toward the effective conduct of the exchange program. The Department's educational and cultural exchange program from the beginning has been based on close collaboration with, and strong support from, the private sector. The private investment in support of the program is a major one and essential to its success.

V

Of the 26 separate Latin American countries with which exchanges are carried out under the Department's program, 18 are in the Caribbean area. In recent years, 40 per cent of the grants awarded under the Department's educational exchange program in the various academic and non-academic categories of exchange with the other American republics area have been with the countries of the Caribbean area. The exchange program with the Caribbean countries has become, in this decade, an integral part of a community of educational and cultural relationships in this part of the hemisphere.

Of the academic exchanges, for example, almost 50 per cent of the grants to professors from the United States were to teach in universities in the countries of the Caribbean area. Of the foreign teacher grantees participating in special seminars and educational projects in the United States, 85 per cent come from these countries. These special programs of from 30 to 45 days include a university seminar in the field of special interest of the teachers, followed by educational visits to various points

in the United States. Approximately 40 per cent of the teachers receiving grants to attend the three Teacher Workshops held annually at the University of Puerto Rico have come from the countries of the Caribbean area. These 40-day workshops are conducted in the Spanish language, with a brief visit to the United States at the conclusion of each session. Most of the grants to schoolteachers from the United States were for this area.

These percentages are, of course, only part of the story, in view of the extensive exchanges between the Caribbean countries and the United States under other auspices. Each year from 1956 through 1961, under all auspices, approximately eight out of every ten students from the other American republics area studying in colleges and universities in the United States were from the Caribbean countries, with the largest numbers from Mexico, Venezuela, Colombia, and Cuba. From 1962 through the last academic year, this ratio has diminished to approximately 8 out of every 12 students, largely because of the number of students from the Latin American countries farther to the south has increased in the last few years.

The exchange program with Mexico is, perhaps to be expected, one of the largest in the Caribbean area. The bulk of the program consists of the faculty exchanges with Mexican universities, visits of secondary school teachers to the United States, and Educational Travel grants to Mexican university students to visit educational centers and to participate in seminars in their fields of interest in the United States. The visits of professors to the National University in the sciences and of Mexican scholars in these fields to the United States under the program have, over the years, made a significant contribution to the research work at the University in such fields as mathematics and physics. In recent years and under the current program, similar exchanges are carried out in American studies fields as well. During the past two years, a special feature of the program has been the support of a long-range cooperative project developed by the Autonomous University of Guadalajara to develop its various faculties and the excellence of its entire program. In this developmental program the University has obtained the long-term collaboration of a consortium of some 15 universities in the western and southwestern parts of the United States. Under the Department's exchange program the project has been supported through faculty and student exchanges. Similar individual grants are awarded each year in response to requests from several other provincial universities in Mexico. A relatively small number of Mexican students are awarded grants for study in the United States under the program in view of the large number of such student scholarship opportunities from other sources. The contiguity of the two countries of course facilitates

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exchanges under private and other auspices to a greater extent than is the case with any other neighboring country to the south. Here especially, as in every case, the Department's exchanges necessarily take into careful consideration the related activities of other private organizations and governmental agencies.

As in the case of all the programs in the area, individual grants are awarded each year to leaders and specialists in all important walks of public and private life to visit the United States, and programs are arranged for them in the United States with the cooperation of a number of private organizations and individuals.

The exchange program with Colombia, next to that with Mexico, is the largest in the Caribbean area. It is the only country in this area in which the academic programs are carried out under a Binational Educational Commission, as is the case in seven of the countries in South America. Colombia is in the midst of a modernization process which is characterized on the one hand by social and economic progress and on the other by rapidly rising levels of aspiration on the part of large numbers of its population. Among Colombia's resources in the modernization process is a system of institutions of higher learning totaling some 26 universities. The answer to how effectively social and economic change can keep pace with rising expectations will in large measure be found in the actions and attitudes of the products of these universities over the next few decades. For this reason the Department's educational exchange program and the efforts of the Binational Commission in Colombia have been focused on these institutions to help strengthen their ability to perform their role in the all-important task of national development.

The exchange program has played an important role in these university reform efforts in several ways: through (1) the assignment of lecturers and experts in university administration to work in and with Colombian universities and the Colombian Association of Universities; (2) the assignment of professors and specialists in the area of student extracurricular program; (3) the organization of special seminars for Colombian university administrators in the United States and in Colombia; and (4) the selection of student leaders and leaders in new extracurricular activities such as community development to visit the United States for short-term periods under the Department's Educational Travel program.

Perhaps in greater measure than in other countries, this exchange program has been marked by continuity and coordination of efforts with other United States agencies. For example, a Fulbright lecturer, Dr. Lloyd A. Garrison, organized and directed the first survey of the needs of the Colombian university in the field of administration. This initial effort has been complemented by the subsequent work of Dr.

Clyde Kelsey and other Fulbright professors. As a result of seminars at Texas Western College in El Paso, and at Ibagué and Pasto in Colombia, a number of important recommendations have been adopted by the Colombian Association of Universities to modernize university administration.

A second area of emphasis has been that of English-language teaching. Through the exchange program, experts in the teaching of English as a second language teach in Colombian universities and help train Colombian teachers of English; strong support has been given to the Colombian-American Linguistics Institute (ILCA), established four years ago in Bogotá, to develop teaching materials and to train teachers in this field; and Colombian language teachers have been brought to the United States for intensive training in modern linguistic techniques. These and the efforts of other agencies have been coordinated through the Binational Commission program. The ILCA effort represents close cooperation among the Colombian Ministry of Education, AID, the Peace Corps, and the Department of State.

The highlight of the exchange program with Venezuela has been in the field of university development. University reform has been encouraged by support of a series of seminars attended by Venezuelan educators and noted authorities from the United States, held in Venezuela, and grants to prominent Venezuelan university leaders to visit the United States to observe university development in this country, to consult with educators and university administrators, and to participate in the annual Seminar on Higher Education in the Americas, which has been held at the University of Kansas in recent years, and attended by some 20 university rectors and administrators from all parts of Latin America.

Another important feature of the Venezuelan program are the seminars on social change, the dynamics of democracy, and manpower utilization, attended by student leaders, and young political and professional leaders, led by well-known scholars from the United States, including such persons as Arthur Schlesinger, Jr., Walt W. Rostow, Professor Louis Hartz, and Professor Frederick Harbison. Educational Travel grants for visits to the United States by outstanding Venezuelan students, secondary school teachers, and young leaders have been another major aspect of the program with Venezuela.

In the five Central American republics (Guatemala, El Salvador, Costa Rica, Honduras, and Nicaragua) and Panama active exchange programs exist. A notable feature in the five Central American countries is the emphasis on cooperatively developed regional activities. In the last decade these countries have organized three major regional organizations operating in the fields of government, economics, and higher education. The existence of the regionally oriented Higher Council of Central

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American Universities has especially attracted outside support from both governmental and private entities. The Department's faculty and student exchanges with these countries are responsive to university activities which support the over-all programs being encouraged by the Higher Council. In all of the Central American countries and Panama, groups of students and teachers receive grants to visit the United States under the Educational Travel program. During the past two years, the University of Guatemala, especially, has welcomed an increasing number of graduate students from the United States.

In the Caribbean islands the Department's major educational and cultural exchange programs respond in large part to categories of grants and fields of activity related to the needs and interests of newly independent countries, which are in the process of training their own people for the direction of their new governments and institution building. This is the case in Jamaica and Trinidad. The exchange program with the Dominican Republic was at a virtual standstill during the Trujillo dictatorship. An expanding program was gaining momentum prior to the recent political unrest in that country, and it is hoped that it will soon be resumed in those categories where it can serve a useful purpose in partnership with other efforts.

In Jamaica and Trinidad the program is modest, but it is growing in scope and in importance. Under the Department's program, professors are sent each year to the University of the West Indies and to the College of St. Augustine, in Trinidad, in fields requested by these two growing institutions; and scholars from these institutions come to this country for research and study. Another special feature of the programs with Jamaica and Trinidad is the increasing number of exchanges, both ways, of leaders and specialists in fields related to aspects of the countries' governmental, community, and related institutional development.

In Haiti the desired channels of fruitful communication have not been open in recent years, and hence program opportunities have been limited.

In British Guiana, the exchanges are largely in response to specific expressions of interest for opportunities for Guianese students to study in the United States in various technical fields related to the developmental needs and interests of the country. The annual programs carried out with the smaller island countries of the area—British Honduras and Surinam—are quite modest, and include grants which are related to aspects of their educational and institutional development.

The unique role of the Commonwealth of Puerto Rico in the national development programs of the countries of the Caribbean area should be mentioned. In recent years it has been a great regional center of technical training for the countries of the area, where hundreds of students, trainees, and specialists receive training each year in technical fields,

valued by them in carrying out programs of technical development in their own countries. In this respect Puerto Rico serves as a unique cultural bridge between North and South, and especially within the framework of the educational and cultural exchange program in the Caribbean area.

So, as you see, the educational and cultural exchange program of the United States government with the Caribbean area is a rich and varied one, reflecting the opportunities and challenges that characterize the area, some representing long-range and continuing cooperative programs of established usefulness and significance to the participating countries, others reflecting the hopes and expectations for a more stable basis for mutual cooperation.

VI

The basic goals of the Educational and Cultural Exchange Program of both the public and the private sectors are designed to contribute, in their individual ways, toward the strengthening of the intellectual bases for accomplishing the hemisphere-wide goals of the Alliance for Progress. The efforts of the larger private sector, which you largely represent, in the educational and cultural exchange programs are playing an ever increasing role in the field of inter-American intellectual communication and mutual development—the promotion of new ideas and methods in human affairs, new attitudes as to the participation of the people in the general welfare, and the encouragement of creative self-expression in the realm of culture, science, and the arts—common concerns of every nation of this hemisphere.

In welcoming new members of the Board of Foreign Scholarships in March of 1963, Dean Rusk made the following statement, which in many ways summarizes the reason why we should all continue to work for increased educational exchanges.

We are trying to build an international community in which nations can work together in peace. In the great world of science and scholarship and the arts, we have such international communities already in existence. For here we know that the great structure of human achievement is made up of building blocks contributed by many nations; that cooperation is necessary to the very structure of learning and the arts. There is no field in which nationality plays a more restrained role, no field in which fraud is more easily detected or more simply punished because discipline is imposed by integrity and the criterion of truth. In these programs we have people of many nations coming together at their best, and I am optimistic enough to believe that when you have people at their best, you have something very good indeed.



R. B. Goldmann: EXCHANGE OF INFORMATION

VISION, the magazine with which I am associated, has just observed its fifteenth anniversary. And after these fifteen years, we remain the only Latin American-wide Spanish-language news magazine. Before getting down to exchange of information between Latin America and the United States, just a few remarks on this increasingly important intra-Latin American problem. Here is a region of 250 million people and 20 nations, of which 18 speak the same language, while the two others have little difficulty understanding the related Spanish of the majority. It is a blessing—one of the few that Latin America enjoys over other areas—and which should give her a clear advantage in mutual understanding. But Latin America has not made the best of this resource. While there are no definitive yardsticks for measuring knowledge of one country about another, there are some useful indicators.

I

For instance, Latin America relies almost exclusively on non-Latin American sources for information about itself. News within the Americas is supplied by the great international news agencies—chiefly the two United States agencies (Associated Press and United Press International), the French Press Agency, and, to a lesser degree, Reuters of Britain. I am not implying criticism of the work performed by these agencies. Generally they do an outstanding job. But they have built-in limitations. The fact is that news from Peru to Venezuela is covered and written either by a Peruvian working for one of the big agencies, or by an American, an Englishman, or a Frenchman. It is not written by a Venezuelan. The same holds true for any other combination of countries.

To appreciate what this means, let me suggest this: that we in the United States would get the bulk of our information about Canada or Mexico from a European news agency, and that this news is written by either a local journalist or a European.

While such an agency may be performing very well in local or European terms, it is not likely to write very sharply or meaningfully for the American reader. This is why we in the United States, the British, the French, and other developed countries have established our own news agencies. Now, smaller countries are beginning to do likewise—sometimes with unfortunate results when the agencies are government-financed and their output government-rigged. But this is not an argument against the basic principle that the dispatch by a country's news media of reporters and correspondents to the rest of the world is right and healthy and reflects the degree of its international interest.

Let me quote from the recently published UNESCO volume *World Communication*, which has this to say about the Caribbean: "Apart from the news agencies of Mexico and Cuba, Canada and the United States, there are only two news agencies in this region—the Caribbean Press Association in the Windward islands, and the Caribbean and Latin American News Service in Puerto Rico." And about South America, the UNESCO survey has this to report: "Newspaper and periodical publication is concentrated in the largest cities. Provincial centers are poorly served and the rural press is still in its infancy. . . . Although ahead of Africa and Asia in daily newspaper circulation, South America lags behind *both* in news agency development. Of the 14 South American countries (this includes part of Panama and the three Guianas), seven have no general news agencies at all. Among these is Peru, which publishes 58 daily newspapers with a combined circulation of 750,000."

The UNESCO survey cites inadequacy and high cost of telecommunications facilities as "the greatest obstacles to the foundation of viable news agencies." But I am inclined to think there is also an inadequacy of genuine interest. At meeting after meeting of publishers and editors from the Americas, speakers concentrate almost exclusively on the problems and accomplishments of their respective countries. The men who run the news media of the Latin American countries have developed the habit of thinking in local and at best national terms—leaving the world outside to the big agencies.

The trouble is that the concept of a world "outside" is becoming increasingly irrelevant. Frontiers are losing their significance, especially within Latin America, where a common market in the north and a free trade area in the rest of the region are exerting a powerful pull on each nation and gradually transforming these countries into a single economic whole.

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With this in mind, a Peruvian newspaperwoman with common sense and a sense of history, Elsa Arana of *La Prensa* in Lima, has suggested to the Inter-American Press Association that it establish a "Common Market of Newspapermen." Under this arrangement, a newspaper from one country would send a reporter to a sister country, where he or she would work on a corresponding paper, and vice versa. The traveling reporter's paper would continue to pay his salary, while the host publisher would take care of room and board for the visitor. It is a constructive proposal which was received with warm applause but still remains to be carried out. And even if it is, why should there be need for such a special arrangement? Is it not time—and has it not been time for years—that Latin American publishers send correspondents to the capitals of each other's countries—not as a matter of journalistic pioneering, but of sound business and long-neglected responsibility?

II

Now let us look at exchanges between us and our southern neighbors. To limit the discussion to manageable proportions, I am restricting these comments to the printed word—and to north-south communication in the area of non-governmental journalism. This is merely for the sake of concentrating on some specifics in the limited time available and in no way downgrades or dismisses the activity of agencies such as USIA or the OAS or of private broadcasters like Radio New York Worldwide.

I used to serve in Washington in the inter-American bureau of the State Department. This is when I sorely felt the paucity of Latin American representation. I used to envy my colleagues in the European and Asian areas for their many callers representing newspapers from those regions. (The great news agencies service these continents just as thoroughly as they cover Latin America.) Shortly before I left Washington, in December, 1963, out of 163 correspondents for foreign media accredited to the State Department, 4 were listed from Latin America, and only one of them was regularly covering the beat. Compare this, if you please, with these figures for other regions: Europe—87; Asia—51; Africa—4 (the same number as Latin America); Australia—4; and Canada, with a population one-tenth that of Latin America—14. There was representation from the *Times* of India, the *Hinduston Times*, *Al Ahram* of Cairo, *Dawn* of Pakistan, the Antara News Agency of Indonesia. Unrepresented in Washington are, among others these great Latin American newspapers: *La Prensa* of Buenos Aires, *Estado de São Paulo*, *Correio da Manhã* of Rio de Janeiro, *El Mercurio* of Santiago, Chile, *El Universal* or *Novedades* or *Excelsior* of Mexico City, *El Tiempo* of Bogotá.

Several of these papers have correspondents in New York, either on a full-time basis or as stringers, covering the United Nations, financial news, and the cultural scene. This is all to the good. But it seems to me that the Latin American publishers and editors have missed the big point of recent years in inter-American relations: that Washington has become the capital of inter-America. Here are the nerve centers of the Alliance for Progress. Here is the Inter-American Development Bank, the most successful regional development agency yet established, which makes news almost daily. Here is the Organization of American States with all its councils and subsidiary organs, the "United Nations" of the hemisphere. Here are the World Bank and the International Monetary Fund, with their deep influence on development and financial policies in the region. The Fund is one of the *bêtes noires* of Latin America, much maligned, rarely defended, always controversial. But it is uncovered at the source by trained newsmen from within the region who should find out what the Fund is all about, in terms meaningful to their particular audience, and then let the readers make up their minds.

III

We constantly hear from our Latin American friends that we North Americans tend to look at the region as one big homogeneous unit, when in fact it is made up of 20 different countries, each of which has its own peculiar history, goals, and problems. We are told that in fact there is no Latin America. Why then are our publishers and editors, who forever point at these distinctive national characteristics, satisfied with reporting that is identical for the entire region, and often for the world? For news agencies are limited in satisfying the informational requirements of a particular country. And they can never meet the crucial need of reporting in depth and in terms targeted for an audience in Rio, Lima, Managua, or Caracas.

We are told that Latin American papers do not have the funds to send correspondents all over the world, that it is all a matter of economics. I have not made a study of the economic and financial problem. But I cannot believe that papers like the *Times* of India and the *Hindustan Times* should not be able to foot the bill for Washington correspondents, and that *La Prensa* and *Estado de São Paulo* cannot. It seems to me that next to newsprint and a correspondent in Brasília, a major Rio paper has no more vital need than a reporter in Washington. And almost equal budgetary priority should be assigned to special correspondents in at least 3 or 4 major capitals in Latin America.

IV

But there is no room for complacency *up here*. We are almost equally guilty of neglect in our reporting from Latin America. The *New York Times* currently has 4 full-time correspondents in Latin America—one covering Mexico and Central America, one covering the northern Andean tier plus Venezuela, one the southern cone, and one Brazil. In addition, it has temporarily stationed men in Cuba and in the Dominican Republic. This is relatively good coverage. No other American newspaper approaches it. A handful have one man roaming the entire region, which on the face of it is an impossible assignment. Most of them, including a good many major papers, have no full-time men in the area at all. Compare this with the scores of full-time American correspondents who regularly knock on the doors of prime ministers, foreign ministers, and business corporations in Europe. Compare it to the heavy representation our papers have in all major Asian capitals and centers, such as Japan, India, the countries of Southeast Asia and even the Middle East. It is my impression that even Africa is getting better reporting from our papers than Latin America.

Does this reporting situation bear any resemblance to the geographical, strategic, political, and commercial importance of Latin America for the United States? Or is it a reflection of our long-established habit to take the 250 million people south of the Rio Grande for granted? To pose the question is to answer it. President Kennedy said shortly before his death that Latin America was the most critical area in the world today. I think he was right. But our publishers and editors do not seem to agree with him.

Inadequacy of inter-American reporting—and that includes reporting among the Latin American countries and between Latin and North America—has exacted its toll.

South Americans know little and care less about events in the Caribbean. It is only since Castro and the Dominican crisis, in which some countries saw units of their own armed forces sent into that seemingly faraway island, that interest has been awakened.

There is a world of mutual ignorance between, say the people of Recife in Northeast Brazil, and of Monterrey, in Mexico. And yet, the dynamic industrialists of Monterrey would have much to offer in the way of experience and know-how to a region badly in need of both.

Brazil and Argentina, Mexico and Chile have industrial and manufactured products to offer other Latin American countries. But despite the existence of the Latin American free trade area, trade in such manufactured goods within the region still represents only a negligible proportion of the total commerce among these countries. One of the reasons is

that there is simply not enough knowledge about markets and needs. Here is a vast unplowed field of business news.

What do we in the United States know about the important events that recently occurred in Brazil? To those of our businessmen with interests in the country, the assumption of new and virtually dictatorial powers by President Castelo Branco is a good thing—and that is it. To superficially informed liberals, it is another dictatorship which must be condemned. To most of us, it is *terra incognita*. The facts are extremely complex. It is neither all good nor all bad. This is not the place to go into a detailed discussion of the Brazilian situation. What matters is that here is a nation of 85 million people, right in our own back—or front—yard, and we know far less about crucially important events taking place there than what we know about President de Gaulle's moves in Paris or Prime Minister Ian Smith's actions in Rhodesia. And if we don't know more about de Gaulle and Smith than about Brazil, it is our fault, for the newspapers and TV or radio newscasts are full of France and Rhodesia, and with few exceptions they have kissed off Brazil as if it were New Zealand or Nepal.

What do we know about the young and coming men in Latin America—and, for that matter, what do Latin Americans themselves know about each other's new writers, poets, thinkers, and the leaders of tomorrow? Our and Latin America's newspapers keep printing statements from men whose power is eroding faster than they realize and whose influence is on the wane in a continent that is undergoing fantastically rapid change. Close on the heels of the departing elite are young men with new ideas, minds of their own, and a deep dedication to the development of their countries. We know virtually nothing about them. I am referring to the young and burgeoning Christian Democratic parties in several countries—the thousand or so young Dominicans in Ciudad Nueva who are not Communists and who remain dedicated to the constitutionalist goals of the April revolt. An American professor who recently returned from Santo Domingo after living with these young men reported that there is no contact between them and the Americans on the island—no communication; only anti-Yankeeism on one side and distrust on the other.

Perhaps, if all of us—Latin and North Americans—were getting some reporting on what goes on in the minds of the new men and women who, whether we like it or not, will take over the leadership of their countries, we could establish a dialogue and eventually an understanding. Perhaps, then, we would be less surprised than we have been in the past at the rise of a Perón, the weakness of a Batista, the power of a Frei, or the appeal of a Bosch.

In an address to the recent meeting of the Inter-American Press Asso-

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ciation in San Diego, Shepard Stone, the Director of International Programs for the Ford Foundation, had this to say about foreign reporting in our own press. "In my opinion the quality and depth of our coverage is not satisfactory. Spot coverage is enterprising, but it can frequently lead to distortion. . . . We would inform our readers more adequately if we concentrated on less frequent but more thoughtful and thorough reports which would put headline news from a country in perspective."

It holds true for all of us—Latin and North Americans. The only way to do something about it is to spend the money that it takes to get good correspondents trained and stationed in each other's countries—who can report Peru to São Paulo in São Paulo terms, who can cover Mexico for Buenos Aires from the vantage point and in the language of *portenõs*, who cover Washington as the hub of inter-American activity which it is, and so on.

We have barely scratched the surface. It's high time we got to work.

Rafael Squirru: EXCHANGE IN THE ARTS

I

IN TRYING TO GIVE you an account of the varied and numerous programs that the Department of Cultural Affairs of the Pan American Union has in progress regarding cultural exchange between the United States and the Caribbean area, I think it will be useful and pertinent to introduce my subject with a few considerations on the theoretical foundations and implications upon which these activities rest. As a good starting point it may be useful to remind you of some of the major obstacles that an activity of this nature encounters when faced with the problem of establishing understanding between two cultures that, although they have basic common endeavors, are at the same time quite different in their respective backgrounds and, as a result, in the paths followed to reach these common goals. If America is one continent there can be little doubt that we are justified in speaking of "Two Cultures." Under that title Professor William J. Kilgore, of the Department of Philosophy of Baylor University, has some very interesting considerations to offer in the April 1965 issue of the *Journal of Inter-American Studies*. Of the major barriers to genuine philosophical activity, three struck me as most essential in Professor Kilgore's analysis which he defines as provincialism, dogmatism, and eclecticism.

"To be provincial," says Professor Kilgore, "is to limit one's interest to the activities and aspirations of a person's own community and to apply the standards prevailing in one's own community to the evaluations that are made of other communities and cultures in different circumstances." It should be noted that this illness which tends to under-

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mine conditions for mutual appreciation presents itself in differing degrees in all countries of the Western Hemisphere.

Again quoting Professor Kilgore, "Cultural imperialism may be defined as the social expression of dogmatism; that is, the attempt to impose upon other cultures the evaluational standards of one's own group." In a very happy phrase, dogmatism is further defined as "cultural provincialism that has become aggressive."

Finally, "Cultural eclecticism represents a tendency from within a society to undermine its integrity and identity with its customs and traditions by the practice of commending without discrimination the procedures and evaluations prevalent in other societies." Such eclecticism would amount to what we might call lack of cultural authenticity, another major obstacle with which some of the Latin American countries are faced today much in the same way as happened with the Russian cultural movement in the last century when the nationalist composers had to face the attacks of their import-minded colleagues—the differences ventilated between the Musorgskis and the Glinkas.

II

Before illustrating with objective correlatives the varying degrees in which these major stumbling blocks are active, I would remind you of some of the basic factors that explain the different and at times apparently antagonistic affirmations of North American and Latin American cultural idiosyncrasies.

To begin with, the starting point of the United States and the Latin American cultural phenomena is vastly different. While the Pilgrim Fathers who landed in New England were met by nomadic tribes that led the life of savage communities, the Spanish conquistadors found in at least two major centers societies that were highly advanced in many aspects of their cultural development. The Aztec Empire of Mexico and the preceding Mayan culture that had developed in that country and in what is today Guatemala and Honduras presented in more ways than one a degree of sophistication that caused the Europeans to marvel. As a simple reminder, let us recall that the city of Tenochtitlán, destroyed by Cortez during the conquest, had double the population of Madrid or even of London. But should we think that population alone is no standard of excellence, let us also recall the fantastic beauty of its architecture, the originality of its urban lake solutions that made it comparable only to the Venice that even today we look upon as one of the most beautiful cities of this earth. Let us add to this the differences between the Anglo-Saxon Pilgrim Fathers and their equivalent in the form of the Spanish and Portuguese conquistadors.

Spain and Portugal represent a special case in the history of Europe. Almost 800 years of occupation by the Moors, or, to be more precise, by the Berber tribes of North Africa, had given the Hispanic Peninsula's Gothic antecedents a very peculiar flavor. The Peninsula cannot be understood without taking into consideration the impact of Islam and Islamic culture. To be sure, the fact that the war between Christians and Moors ended with the fall of Granada to Fernando and Isabella, the same year that Columbus discovered America, is somewhat more than a coincidence. A notable instance of this influence can be found in Cervantes when he jokingly attributes his immortal *Don Quixote* to the authorship of the imaginary Arabian writer Cide Hamete Benengeli, thus acknowledging the usual source from whence most tales of the time proceeded. Just as, in the great majority of cases, the Anglo-Saxon settler brought along his wife with him and carried on his war of expansion while maintaining his racial unity, so the Spaniards and the Portuguese continued the tradition of the seraglio, marrying many Indian wives and populating the continent with increasing numbers of mestizos—the Inca Garcilaso among them—the copper-skinned sons of these unions, who would ultimately inherit the labors of their fathers. We could hardly expect that with such different antecedents the cultural characteristics of North and South could have been the same. If to this we add the religious differences between the Protestant faith as practiced by the Anglo-Saxon community, with its strong emphasis on individual responsibility, and the Roman Catholic creed as believed and practiced by the Latin community, with its strong flavor of hierarchical order and the paternalistic structure of religious indoctrination, we can hardly be surprised that cultural values should not totally coincide, especially in the style of their pursuit.

III

It is not my intention to give you here any value judgment on these differences. History will speak for itself and all value judgments in this respect are bound to be partial and can do little service as starting points to breach the gap between these cultures. What is of use, on the other hand, is to state and clarify what these values have in common and in what they differ from each other. My introduction has been intended merely to set the stage by indicating the basically different starting points from which these two worlds have developed. I cannot possibly try to follow, much less describe in detail, these developments. What I can do is focus my attention on some of the characteristics of these different societies and hope that by pointing out just a few of the more influential ones I may help you to understand the nature of our goals in the Department of Cultural Affairs.

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When today, without further qualification, the word "underdeveloped" is used to describe the Latin American countries, I do not hesitate to denounce that description as belonging to the second of Professor Kilgore's categories, the one he calls dogmatism and defines as "cultural provincialism that has become aggressive." If it be true that from the economic standpoint most Latin American countries can be described as underdeveloped, and this might be a useful category of description, it is also true that when the term is used as it so often is without further ado and without any kind of specific reference, it becomes inexact and is a typical example of a criterion of one kind of cultural achievement applied to a different context, with the final result of obscuring the very issues that we are trying to clarify.

I am not trying by any means to justify the technical backwardness in the specific area of economic development that may well be present in the Latin communities. I am simply trying to underline the fact that the category "underdeveloped" must be qualified, and qualified as minutely as possible, if there is any desire to achieve fruitful understanding, if there is a desire to overcome provincialism and, what is worse, aggressive provincialism.

Techniques do not end in the world of economic development. So when we speak of technical and economic development we must, insofar as we seek the truth, make clear to what exactly we are referring. Techniques for attaining specific goals exist at all levels of human endeavor. Just as there is a technique for developing agricultural production, so there is a technique for gourmet cooking and for other aspects of the full enjoyment of life. I would like to state that the human-oriented techniques—and I will revert to the example of cooking—appear to be more developed in many so-called underdeveloped communities than they are in other economically developed cultures. Why is this so? We are proceeding now from a very sensitive point given as an example to the explanation of this irritating aspect of cultural dogmatism. What is it that allows a community highly developed in its economic, scientific, and military power and their corresponding techniques to be, at the same time, so negligent in other aspects of life that seem to be the very goal of Latin American culture? It is this question that justifies my original remarks.

IV

If we search deep into the soul of the native Indian population and the Hispanic tradition we find that the whole vital force of these societies was directed toward less abstract goals than those of their Anglo-Saxon neighbors. While the United States has been profoundly affected by the

search for truth in a rationalistic and scientific sense, with a tremendous emphasis on mathematical and industrial techniques, its Latin American counterparts appear to have placed greater value on the art of living than on the attainment of truth, understood in the abstract and scientific sense I have described.

There are many consequences that could be pointed out as a result of this basic difference of attitudes. For the North American to search for truth, to speak the truth, is a vital aspect of his social relations. Doctors must tell the truth to their patients, husbands to their wives, children to their parents, and vice versa. Such phenomenal sincerity bewilders the Latin observer, who very often tends to mistake it for lack of manners. On the other hand, Latin American graciousness, the respect for forms that are considered the very essence of social existence when life is lived with an esthetical dimension, are often misinterpreted by the North American as lack of manliness or deceitfulness on the part of their Southern neighbors. The consequences of mutual misunderstanding of the individual's approach to truth, on the one hand, and what we might call vital truth, on the other, can lead and often do lead in the political sphere to great crises in inter-American relations. Americans tend to underestimate the Latin feeling for *delicadeza* and form, which is, in fact, a rather oriental trait of Latin culture. The whole Confucianist ethic is based on the importance of manners. Shrewd observers of the Latin American scene, like Count Hermann Keyserling, have pointed out the extreme importance placed by Latins on *delicadeza* as a corollary to the feeling of *dignidad*.

The extroverted type prevalent in North American culture is another consequence of a society geared to action as a form of self-realization. Again, truth is something that must be reached in motion, something that lies primarily outside the self. On the other hand, the prevalent introvert of the Latin culture is more inclined to "contemplate," the heritage of a mystic tradition that has characterized the Hispanic and pre-Columbian traditions. The Indian and Hispanic worlds have an inherent distrust of nature, a counterpart to the Hindu concept of maya. Nature is considered as something deceptive, something awe-inspiring, something to be distrusted. Nature for the North American is but a challenge that must be subdued and overcome. His machines are an example of the capacity of man to overcome nature. There is an inherent optimism in the Northern attitude of devising machines and of trusting these machines. The North American has inserted himself into chronological time, the time measured by a machine called the clock. Time, thus understood, is an essential quality of North American civilization. Man is pitted against time. He runs against it, he defeats it. Time is money. For the Latin, time does not have this quality of ur-

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gency, it is not a straight line, a no-return ticket into the past or the future. The cyclical concept of time has a far stronger reality to him than the one emanating from the clock. Time recurs like the seasons and because time recurs, patience is a natural virtue. Summer will return, the cycles of nature will repeat themselves, there is less need for action as we depart from the urgencies of reason to install ourselves in the realms of the imagination and of fantasy. Here again the influence of the Moors can be felt through the Hispanic tradition. In such an atmosphere of leisure, activity approaches once more the oriental concept of *wu wei*, activity through inaction, the activity of dreams and of the unconscious.

To synthesize, in the terms used by the world of psychology, we could say that North America has emphasized the development of the conscious mind, placing supreme value on this type of endeavor, while the Latin has explored with far greater zeal the realms of the unconscious, which is not the same as saying the realms of the irrational, much less so the antirational. In this atmosphere it is not difficult to understand why the achievements of the Latin American genius in the arts and poetry are vastly superior to the attainments of the Latin American rational mind in systematic philosophy, science, or engineering. But I insist, it would be a bad mistake to conclude that because the latter have been relatively neglected those explorations of the Latin imagination should be despised. If it is true that at this particular moment the Latin American countries are facing the challenge of assimilating the historical categories of time, of economic and industrial development, and of scientific achievements that characterize the Anglo-Saxon world, it is no less true that for North America there is an increasing necessity to assimilate and incorporate the vast richness of the Latin *wu wei*, of the Latin enjoyment of life, of the Latin intensity and capacity for contemplation, of their natural genius for enjoying leisure, for understanding leisure, for penetrating the mysterious world of the unconscious. Surely there can be no antagonism between these endeavors; surely this is a ground that merits clarification; surely if we understand that coining phrases can be dangerous unless we qualify them carefully, a very fruitful relationship can and should take place in the field of intercultural communication.

If we stop speaking of underdeveloped countries in unqualified terms and start speaking of countries that have evolved with different goals of development, a big step will have been taken in the mutual appreciation of cultural endeavors. The danger of dogmatism translated into cultural imperialism is great, for all concerned. It tends to undermine local character, which brings me to the last category of Professor Kilgore's indictment, eclecticism understood as cultural inauthenticity.

The problem of cultural inauthenticity is one that has been facing the Latin community for a long time. For the defeated Indian cultures it meant that they had to accommodate to European values in order to survive. The Indian's capacity for camouflage saved his values and beliefs from being completely destroyed and an aware eye studying, for example, the baroque period of architecture can detect the aboriginal influence of the artisan and of the artist. The style has even been called *mestizo-baroque*.

Today the challenge is different. Ever since the strong impact in the first quarter of the nineteenth century of the French ideas that were adopted to further the cause of revolution against colonialism, the strong European allure has continued. For a long time Latin America succumbed to unworthy imitations of European standards, with notable exceptions in the last century. Even today, this is true in spite of the ever stronger expression and recognition of authenticity. The struggle between the authentic and the imitative has not quite ended, by any means, although it is fair to say that in this century national expression has increased greatly not only in terms of quality but also in terms of recognition. For too many years Latin American critical opinion has been unsure of itself. The artist, the intellectual, and even the writer had to obtain European recognition before he could have any impact in his own country. For this reason many of the Latin American artists left their respective countries to travel, at first to Europe, mainly to Paris, and later on to New York. Most of them preserved their national characteristics but for the world of criticism they were absorbed under the label *école de Paris* or, today, the New York School.

It is little surprising that under these pressures on many occasions the artist's courage to remain faithful to his own being and tradition has faltered. He often found that recognition in foreign cultural capitals became easier in the measure in which he was willing to adopt alien criteria of excellence or at least to camouflage the stronger traits of his own personality. What I say can be easily corroborated by consulting almost any of the works written by European or United States art and literary critics.

Just for the sake of illustrating the point, I will refer you to Herbert Read's *Concise History of Modern Painting*, which dismisses the whole Mexican Muralists School as not belonging to the modern movement simply because their modernism does not conform to Europe's particular brand. We have the case in point of Diego Rivera, who painted valuable pictures in the cubist style during his stay in Paris, before he returned to his native Mexico and adopted a new form of expression that he

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found more authentic in terms of his own tradition, which stemmed from such valuable sources as the Mexican engraver Posada. There can be little doubt that if Rivera had remained faithful to cubism he would have found a place of honor in Sir Herbert's *History*; but, having deserted these standards he has, like his colleagues, been obliged to face the banishment that his authenticity has caused. The same dismissal is accorded the great American artist Edward Hopper, perhaps the most important painter working in the United States at that time, because in following the path opened by Eakins he too chose to remain faithful to his native tradition. I have seen similar enormities committed in our day, in the best of faith, by foreign critics who, when traveling in Latin American countries, favored with their praise those styles of art that were closest to what was going on in their own centers of art.

By bringing up this point I am by no means condemning artists who work in the more international styles, or even implying that they are necessarily less authentic when working along these styles. We must remember that a respectable percentage of the Latin American population is but one or two generations removed from their European ancestors. We could hardly ask them to become automatically attuned to native traditions of Hispano-American cultures that are as foreign to them in many cases as they are to any European in Europe.

What, on the other hand, I am denouncing is the discrimination by which those who follow the Hispano-Indian tradition are so often victimized. I could illustrate this with many concrete examples, but for the sake of brevity I shall spare you and let one speak for all. Quite recently I had the opportunity of witnessing a major prize being awarded to a relatively unimportant Latin artist working in what is known as the Optical School, while far more important and better Latin painters were ignored simply because their work did not conform to that international type of research.

The danger of such a facile attitude on the part of the critics is that it ignores quality for the sake of misapplying the standards of their own culture to the products of a different culture, in this case the Latin American culture. Our art is not represented by any one particular style, but rather by many that are equally valid from the standpoint of Latin American sensibility and thought. The pressures implied by the ethnocentric attitude described have a tendency to destroy basic aspects of a cultural personality and can in the long run do great harm to the process of cultural development. It is true that these pressures can be met as so many challenges, and that in fact they have been so met by the strongest of our intellectuals and creators. But it is also true that in the struggle valuable forces that might have been more fruitfully employed have in fact turned against the birth of that legitimate child which it is our

mission to bring forth. We have had to bare the pitiful spectacle of cultural Quislings in our midst.

For those who like myself have had to face these pressures and in some respects still have to face them, these are somewhat more than incidental observations. Culture has become the battleground for non-cultural contests, often for those that belong in the political realm. In fact, politics has perhaps provided the most painful illustrations of irrelevance. Because of this invasion of the cultural domain it is little wonder that the Latin American intellectual and artist has often exceeded what might be considered his cultural mission to engage in the political struggles surrounding him. This is the situation that underlies Professor Kilgore's observation that "while philosophers in Anglo-America have a tendency to be concerned with problems of linguistic analysis and the philosophy of science, philosophers in Ibero-America have shown greater interest in social and political problems." To put it another way, we might say that intelligence has a tendency to devote itself to what appears to be the most urgent concern at the time. And it is the unfairness with which the Latin American so often feels he has been judged that tells the story of why Latin intellectuals have in so many cases transcended the boundaries of a purely intellectual approach.

To be sure, the social novel, social art, and socially-minded philosophy are less emphasized in the measure in which the pressures of the society are subsiding. They will become still less when the pressures totally subside and when other cultures are willing to judge ours on the merits of its quality of creative power, over and above its external characteristics.

If the problem appears to have been acute for the Latin American artist and intellectual, let us make no mistake. The impoverishment that inauthenticity implies is one that affects us all. By having only roses in our garden (real and artificial) we won't necessarily increase its beauty. This is perhaps the key aspect that must be kept in mind in order to understand and actively defend man's right to express himself within the context of his own tradition and his own spirit.

At this particularly crucial moment of world history, both Americas have the opportunity to make an important contribution to the world. It is the contribution of their mutual understanding that can only be attained through mutual respect. If the roads traveled have been different, the goal is held in common, namely, the true freedom of man. Freedom may be reached through increasing the capacity for economic production. Freedom may also be endangered when that capacity starts operating outside of the human context, for just as man can be freed by the machine he can also be enslaved by it. What is important for all cultures is to remember that man is the measure and the goal of achievement.

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To be well fed is important to a man, but it is not enough, and Christ's words ring true today: "Man does not live by bread alone." All programs of economic aid are certainly welcome by any community, but not at any price. Without his own personality man is lost to himself; without his culture man is less than a man. To put this message across is the chief responsibility of the Department of Cultural Affairs of the Pan American Union.

We wish Latins to understand the high moral and intellectual achievements of the United States. We also wish them to understand and accept the challenge of assimilating many of the aspects of this moral and intellectual achievement. We believe it is a worthy challenge and one that when accepted can only enrich and strengthen the Latin American personality. We also wish to put across to the North American people the values upon which Latin American society has been based and through which and only through which it can possibly evolve.

Latin America is willing to share with the world the happy experience of many races working together in the consolidation and enrichment of its regional personality. We hope that these values may enrich not only our neighbors of the North but that ultimately all Americans, North and South together, may offer the rest of the world our common message of freedom and of respect for the dignity of human personality.

VI

Let me now give a brief résumé of what we are doing through our Department in the field of the arts in the Caribbean.

The Pan American Union has assisted all the Caribbean countries in the field of music in providing technical advice, publishing catalogs of composers and music compositions, and furnishing advice relative to music education, giving commissions to composers, and organizing various music events. The following is a country-by-country breakdown.

Dominican Republic. The Pan American Union published the catalog of works by the Dominican composer Juan Francisco García, assisted on several occasions with lectures at the National Conservatory of Music, and is currently collaborating in the preparation for publication of a Dominican songbook for children.

Haiti. On various occasions the Music Division provided technical assistance to the Music School, which has now been discontinued due to insufficient economic resources.

Puerto Rico. The Pan American Union aided in the organization of the Third Inter-American Conference on Music Education and of the Second General Assembly of the Inter-American Music Council, both held at the University of Puerto Rico in Río Piedras several years ago.

Also a composition was published by the Pan American Union, written by the Puerto Rican Héctor Campos Parsi, who also received a commission to compose a work for the Third Inter-American Music Festival of Washington. Several Puerto Rican artists have appeared in recital in the official concert series of the Pan American Union. Currently the Music Division is assisting this country in the organization of the island's first festival of music of the Americas.

Venezuela. The Pan American Union published the catalog of works by the Venezuelan composer Juan Bautista Plaza, and the catalogs of three or more other Venezuelan composers will appear in print later this year. In addition we rendered assistance to the country in the organization of its regular music festivals, and we have presented the most outstanding artists of the country in recital at the Pan American Union.

Colombia. The catalogs of works by the following Colombian composers have been published by the Pan American Union to date: Jesús Bermúdez Silva, Luis A. Escobar, Fabio González Zuleta, Roberto Pineda Duque, Guillermo Uribe Holguín, and Antonio María Valencia. Also, the Pan American Union has contributed much to the development of music education in that country and in the organization of the National Music Council of Colombia. It has, further, provided much technical assistance and advice in the celebration of the festivals of Cartagena de Indias, and in the organization of the First Inter-American Conference on Ethnomusicology and the Third General Assembly of the Inter-American Music Council, both held in that city in February 1963. Mr. Escobar, Mr. González Zuleta, and Mr. Pineda Duque received commissions to compose works for the Inter-American Music Festivals of Washington. Finally, the most outstanding performers of Colombia have been presented in concerts at the Pan American Union.

Panama. This country has received technical assistance from the Pan American Union in the publication of a catalog of works and a composition by the Panamanian composer Roque Cordero, who also has been a recipient on several occasions of commissions to compose works for the Inter-American Music Festivals of Washington. In addition, the Pan American Union assisted this country in the publication of a music directory of Panama, and in presenting its outstanding artists in recital.

Costa Rica. The catalog of works by the Costa Rican composer Julio Fonseca was published by the Pan American Union, and a work commissioned to Bernal-Flores for performance at the Third Inter-American Music Festival.

Nicaragua. Technical assistance has been rendered by the Pan American Union to the National School of Music, and a catalog of the Nicaraguan composer Luis A. Delgadillo was published.

Guatemala. The Pan American Union is in close collaboration with

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this country in the fulfillment of its various music activities. To date catalogs of two Guatemalan composers, Ricardo Castillo and Enrique Solares, have been published by the Pan American Union, as well as compositions by Mr. Castillo and Manuel Herrarte. Mr. Solares received a commission to compose a work for the Third Inter-American Music Festival of Washington. Finally, the country's outstanding artists have appeared in recital at the Pan American Union.

Honduras. We have offered technical assistance to the National School of Music of this country, and published their first volume of folklore.

Mexico. The Pan American Union has offered broad technical assistance to Mexico in the organization of the First General Assembly of the Inter-American Music Council, and the two Pan American Music Festivals of that country held to date. In addition, the Pan American Union has published thus far the catalogs of the following Mexican composers: Carlos Chávez, Rodolfo Halffter, Carlos Jiménez Mabarak, Manuel M. Ponce, and Silvestre Revueltas; and compositions by Blas Galindo and Rodolfo Halffter. Also, the first music directory of Mexico was published by the Pan American Union, and the country's outstanding artists have been presented in recital in our official concert series.

Art

The art program has shown exhibitions of the following artists: Teresa Casanova and Elvira Zuloaga from Venezuela; Angel Lockhart, Enrique Grau, Omar Rayo, and Nirma Zarate from Colombia; Julio Zachrisson and Constancia Calderón from Panama; Carlos G. Cañas from El Salvador; Julio Rosado del Valle from Puerto Rico; Carlos Poveda from Costa Rica; Efraín Recinos from Guatemala; and Ignacio M. Beteta from Mexico. Exhibitions from Cuban artists in exile were shown.

Our Visual Arts Division presented a Panorama of Central American and Panamanian Art in 1964 at the Central America and Panama Pavilion of the Worlds Fair in New York. This program was sponsored by the Esso Standard Oil Company, which also sponsored the Esso Salon of Young Artists in 1965 that included all the countries in the Caribbean area.

Visual Arts Bulletin

We edit a Bulletin with news of the visual arts movement in the Caribbean as well as the rest of Latin America and the United States.

Art Publications

Monographs on Venezuela, Haiti, and Colombia have been printed. One on Guatemala is at the printers.

Traveling Exhibitions and Loan Materials

Loans of materials were made (films, slides, photographs, ceramics, flags, etc.) to all the Caribbean countries.

Information and Administration Services

Trips were made by the Chief of the Division for the purpose of lecturing and contacting artists in the Caribbean area. Technical assistance has been given to most countries.

Films

Documentary films have been made on Alejandro Obregón of Colombia, The Colonial Museum of Caracas, Venezuela, and Modern Art in Central America, and lives and works of artists represented in the exhibition at the Worlds Fair is in preparation.

Library of the Pan American Union

The Library Development Program focuses its attention on problems common to most of the libraries in Latin America and to those of a certain type such as university libraries. In general, its activities are to be found in the area of assembling and disseminating information on current library trends; the provision of advisory services and technical assistance to nations and institutions; the promotion of improvement in the teaching of library and information sciences; the encouragement of improved methods in bibliography, the booktrade, and the exchange of publications; and the production and publication of manuals and other aids to libraries in Latin America.

Much of its work, therefore, centers around guidance to the Inter-American Library School in Medellín, Colombia, encouragement in the centralization of university library systems, promotion of the creation of library systems as a part of national planning, efforts to achieve a program for the mass production of elementary reading materials for children and adults through the proposed program of the Books for the People Fund, and the increase in the flow of information in the Americas through the annual Seminars on the Acquisition of Latin American Library Materials. (The first one was held at the University of Florida, inspired by its Librarian, Stanley West.) Although libraries of the Caribbean benefit by all the activities of the Library Development Program, they have most actively participated in those concerning the Seminars.

In an effort to provide better understanding for both national and international planning for library services in Latin America, the Pan American Union held on September 30 to October 2 an informal Round Table on International Cooperation for Library and Information Serv-

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ices in Latin America, attended by 42 from Latin America and 100 from the United States. Information was assembled from some 80 agencies on programs maintained by them which benefit libraries in Latin America. The Latin American librarians found that the principal problems they face, which must be met by outside financial and technical assistance, lie in the areas of the professional training of librarians, the building of library collections, bibliographic compilation and service, and national planning for library services. Their conclusions can be described as "goals for an Alliance for Library Progress."

Caribbean Archives

The Caribbean area is definitely within the sphere of interest of the Organization of American States (OAS). Over half of the member states, islands of the West Indies, and countries of South, Central, and North America adjacent to the area, are concerned with Caribbeans. They contribute to the programs of the OAS, whether economic, social, or cultural. The nonindependent territories and the newly emerged nations in the West Indies, because of their geographic location and the intermingled cultural and historical heritage, come within the sphere of interest of the OAS.

It is for this reason that the OAS participates in an observer capacity in meetings and conferences frequently scheduled and concerned with the Caribbean. There is still another reason. The OAS has among its employees, specialists who have more than a passing knowledge and preparation to contribute to meetings concerning the West Indies.

In this connection, reference is made to the First Conference on Caribbean Archives, held in Jamaica September 20-27, 1965. For this Conference the Secretary General named Arthur E. Gropp, Librarian of the Columbus Memorial Library, to be its Observer. In 1937-38 he made a survey of libraries and archives of Central America and the West Indies under a grant from the Rockefeller Foundation under the auspices of Tulane University of Louisiana. His *Guide to Libraries and Archives*, published in 1941, still remains a standard work for the area.

Furthermore, the OAS is scheduling a technical conference on historical monuments, archeological objects, artistic works, and documentary sources pertinent to the intellectual and cultural heritage of the Americas. As a consequence, the results of the Conference on Caribbean Archives are valuable in the planning of a program of action for implementation by the OAS.

The decisions reached by the Conference in Jamaica, attended by some 36 delegates and observers from the various geographic areas of the West Indies and continental Europe, Canada, the United States, and several adjacent countries of Central and South America, will serve as a

precedent for activity in relation to the urgent need for (1) making governments aware of the importance of archival materials; (2) persuading not only governments, but also churches, associations, firms, educational institutions, and individuals to preserve and to organize their records for the use of future generations; (3) adopting measures for the selection of documents that are to be preserved for historical purposes; (4) providing suitable physical quarters, as well as means, such as guides, indexes and catalogs, thus making records more readily accessible; (5) establishing not only in-service training programs but also suitable academic courses for the training of archivists; (6) collecting the oral accounts and objects of inhabitants (unfortunately large in many countries) who, as a rule, do not leave written records; and (7) making every effort to disseminate the excellent working papers and reports presented in the First Conference on Caribbean Archives.

Finally, inspiration may be had from the fact that a group of people, unknown to each other before, met together, gained friendships, learned from each other about common problems, earnestly desired to keep in touch and work together for the solution of common problems, and that this group longed for a continued association. It is appreciated that the First Conference on Caribbean Archives as a final measure moved to form a provisional committee to formulate necessary plans for continuing association. The OAS will be pleased to work with whatever organization emerges. It will continue its relationships with those organizations and institutions active in the Caribbean field.

The Division of Philosophy and Letters

The Division of Philosophy and Letters maintains relations with the faculties of Philosophy and Letters of universities of the Americas, as well as the language academies, the national libraries, the official institutes of cultural character, and the literary and philosophical societies. This Division assisted various specialists of Central America and the Caribbean Area in establishing the Ibero-American Society of Philosophy, founded in Guatemala City on March 4, 1960. The Division also maintains relations with the Publications Office of the Ministry of Education of El Salvador, the most active institution in the editorial field in this whole region. The *Inter-American Review of Bibliography* has correspondents and advisors in various countries of this cultural geographic area.

Specifically, the existing material about Central America and the Caribbean is:

(a) *Dictionary of Latin American Literature*. This series, which includes volumes on Colombia and Central America, presents biobibliographical information and critical interpretations about representative

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writers, from the colonial period to the present. It also includes bibliographies of a general character.

(b) *Thought of America*. Various volumes of this series deal with personalities or themes of the area: Carlos Arturo Torres. *Toward the Future, Precursor Poets of Modernism*; Justo Arosemena. *Moral Essays*; José Martí. *Prose Writers from Costa Rica: Joaquín García Monge, Roberto Brenes Mesén and Carmen Lira*; Enrique Gómez Carrillo. *Whitman and Other Chronicles*; Juan Vicente González. *History and Passion of Venezuela*; Rubén Darío. *Literary Critic, Panorama of Cuban Philosophy*. The last volume, published in 1964 under the title of *Anthology of Social and Political Thought in Latin America*, presents a selection of representative authors of the area.

(c) *Basic Bibliographies*. In the two volumes published in this collection (*Latin American Prose in English Translation* and *Latin American Poetry in English Translation*), there is abundant material about works of writers and poets of the Caribbean and Central America that has been translated into English. In a future bibliography, "the sources of the Central American culture" will be examined.

(d) *Philosophy and the University*. In the first volume of this series (*Teaching of Philosophy at the Hispanic American University*), there is information about corresponding courses given in universities of the different countries of the area.

(e) *Inter-American Review of Bibliography*. In its fifteen years of existence, this publication has given special attention to Caribbean and Central American themes in its article sections, reviews, notes and news, and recent books.

Besides the publications of the Philosophy and Letters Division, the work of the Committee of Cultural Action from Mexico should be mentioned, especially the *List of Representative Books of America*, of which there were two editions: one in 1959 and the other augmented in 1963. This list will be conveniently completed with an *Anthology of Latin American Literature*, with ample selections of Central American and Caribbean authors. A mimeographed version of this anthology will be presented at the Fourth Meeting of the Inter-American Council that will take place in Washington, at the Pan American Union in January 1966. The *Ideario Americano* should be mentioned, containing selections on the works of authors that have contributed to the ideal of American unity, and which will be completed by the Committee of Cultural Action. The Division of Philosophy and Letters has closely collaborated with the Committee in the preparation of above-mentioned projects, in the preliminary phase as well as the final one.

**Ralf Brent: EDUCATIONAL COMMUNICATION AT HOME
AND ABROAD**

I

IT IS OF UTMOST IMPORTANCE that we really understand what we must do *now* in our own self-interest, in distributing education through the tools of communication and in providing examples of effective instruction, especially to the neighboring countries in this hemisphere.

Before the invention of the book, students sat at the feet of a learned man and listened as he conveyed the knowledge he had acquired in his lifetime. Through this chain of tutor to pupil, pupils became teachers who taught more pupils, and added their own interpretations and discoveries through the centuries.

Then someone invented the book which could pass from generation to generation. Teaching changed because a new tool of communication had made it possible to impart knowledge in an impersonal, handy form which the student could absorb in isolation—on his own. Still, these books existed in extremely limited quantities, and education was confined to a very very few.

With the advent of movable type, books became a medium of education for many. And as each modern device—the handprinted book, the multiple copy books from type—was thrust upon us, the old teacher whose importance was diminished howled in righteous wrath. Can't you hear one of the old tribal teachers protesting: "Books will ruin the education process. How do we know our students will read them? Personally I don't own a book—wouldn't have one in the cave."

Now look at the communications tools available to the educational

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process since the turn of the century: the still photograph, the motion picture, the telephone, the phonograph record, radio, television, the tape recorder, satellites, and so forth. What has been their effect on education?

I am sorry to say these new devices are utilized mainly by those who need a crash program in education—our own military, for example, in the training and indoctrination of new troops. I personally saw more modern techniques of teaching when the United States Army was trying to make a GI out of me, in eight weeks of basic training, than I had in 16 years of grammar school, high school, and college. And why? Because the Army needed trained personnel in a hurry and had a shortage of teachers and classrooms.

Another example of the use of modern communications tools for education is in the Soviet Union and its satellites. And why? Not because they have a better educational system, but because they, like our military, had a crash program under way without sufficient teachers, schoolrooms, laboratory equipment, and texts.

American industry uses communication in all its new modes—tape, motion picture, microfilm, telephone line—to a degree our educational system should emulate.

Why do we not use these techniques more in education? Perhaps some of you are so enamored of the personal teaching method that you are advocating the English system, where formal courses are taboo and instructors sit around in small groups and smoke and discuss whatever subject comes to mind.

That is fine for development of the mind and the ability to think through a problem; but what about imparting a little basic knowledge first, from which the student can summon up facts in his process of solving his and the world's problems? And what better way to impart this knowledge, even to expose the student to the exciting ideas of the knowledgeable great men and women of the world, than through the new tools of communication?

I believe that the classroom is an archaic device whose main purpose was to convene a group of students in one place with light and heat—and a teacher. Are we not ready to admit that learning can take place wherever a student can read a book, watch a picture, hear a voice, ask a question?

II

Today this condition exists almost everywhere in our country, and in a few more years it will actually exist anywhere in the world. Transistorized pocket radios operated by flashlight batteries are here in large numbers; does anyone doubt the same will be true of television sets in the next ten years?

But what will we do with them? What are we doing with radio now?

Will the broadcaster who is not particularly education-oriented do anything with a medium he considers to be primarily a news and entertainment device? Conversely, will the educator who clings to the in-person classroom-teaching method not only insist on the use of broadcasting for education, but also explore and experiment and train himself to use broadcasting?

I have seen several television and radio systems in various schools and universities. Most of them are magnificently equipped. Most of them, right after going on the air, redefine what they mean by educational broadcasting. All of a sudden the educational broadcaster who made great representations to the Federal Communication Commission about all the educating he was going to do by wireless begins to worry about how dull educational courses on television or radio are—and just like his commercial counterpart, when the first ratings come out on his station he gets all shook up.

The signal of his station reaches the entire community, usually just as well as the commercial stations. Why should he not try to reach the entire community? All of a sudden he is pretty much out of the education business—he is beginning to run feature films, most of which have already been turned down by the regular general interest stations, sometimes because they are foreign type art films. Then he starts with the discussion programs, usually expressing the more minor points of view and—more often than not—the liberal point of view which abounds more freely in the academic world.

Do not mistake this reference to mean that I do not believe that this point of view does not deserve time on television and radio. What I am questioning is the changing complexion and emphasis which our educational stations are adopting.

Were the educational channels allocated by the FCC intended for this, or is my view of education as practiced in the broadcast media too narrow?

What I am wondering is whether or not many educational broadcasters have bypassed the most urgent need to use these media to educate, in favor of becoming a persuasive political and social force in the community. But to label this an educational station to my mind is wrong. Perhaps a new class of station is needed—a truly public facility—supported by public funds and taxes, and open, as a public auditorium is open to all groups who will pay the admission fee.

III

But this is not my thesis. I am concerned because our own schools are overcrowded, because more and more high school students who do not drop out before graduation find it more and more difficult to gain ac-

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ceptance to college, and because our own school plant investments in stadia and swimming pools and laboratory facilities and classrooms and theatres are beginning to outstrip the ability of some communities to pay the bill for such facilities.

I am concerned because other countries, faced with even more pressing educational problems, and with a small national income to tax, are using the broadcast media more and more, and making them effective in the educational process directly to the public. Certainly there are some interesting and noteworthy experiments in this country in educational broadcasting, but they are far too few, and much too timid, or perhaps too little publicized.

Has there been any widespread scientific testing of new instructional methods by way of radio and television? Or are we limping along simply focusing our cameras and aiming our microphones at a teacher in a classroom?

President Johnson has just appointed a committee to study the subject of educational television. Hopefully, this group will break loose from the traditional approaches of either the broadcasting industry or the education establishment and will dare to devise new methods, new uses, new techniques, and particularly new ways of making education by broadcasting so exciting to the listener or viewer that the entertainment-oriented broadcaster will find his hold on the audience so challenged by a more exciting and interesting and vital service that he will be forced to compete not with mediocrity but with excellence.

It is axiomatic that television and radio can inform. To my mind they are the universal teaching machines, available in every home. It is incomprehensible that they have not been better used as teaching machines to create the "educated society"—a society which has the capability of rising to undreamed heights of literacy, to unattained levels of income, and where each member of that society has available to him complete equality of opportunity of education.

We have a great tradition of public education in our country. What education would be more public than one available in every home?

Let me anticipate some of the objections you may have been thinking of. Most of my answers will offer technological solutions. Almost every engineer I know tells me: "There are no technological problems today which cannot be solved. The problems are social, political, economic."

First Objection: "No interchange between student and teacher."

Answer: The daughter of a friend has attended a year and a half of high school while flat on her back in bed at home, using a special telephone hookup to her classes. She graduated with honors.

Second Objection: "What about the research function—going to the library?"

Answer: It is possible now in industry to read out microfilm from one remote point to any number of others, on demand. Banks now use this system. Why not central libraries on microfilm, which can be dialed in on your TV screen with any piece of information desired?

Third Objection: "What about the lack of social contact with such a process as educating by TV and radio in the home?"

Answer: A technological answer of a sort: have you heard the amount of social contact already offered by the telephone in any home which contains one teen-ager?

There are many more objections: control of content from a central source; answer—diversity of presentation; how to insure attendance and attention; answer—by some tangible reward.

But I ask you not to ignore the potential of this educational communication process simply because it inherently neglects some romantic or sentimental notions you may cherish about traditional schooling. There is very little time left for traditional approaches to anything. In this country, almost every graph of human tempo—economic growth, population increase, speed of communication and transportation, consumption of food and other resources—shows a geometric jet-take-off-line on the right side of the chart. The one major exception, perhaps a fatal one, is that the curve that describes the educational process, capacity of plant, number of graduates, and amount of imparted knowledge during a 16-year exposure has not risen correspondingly.

IV

In the Caribbean countries and elsewhere the birth rate chart is the only indicator we need to tell us that there will never be enough done to build enough schools and train enough teachers to meet the rising tide of young people who can become tomorrow's howling mob in the streets—or the well-ordered constructive societies of the future.

There is absolutely no question that the nation which does the best and most thorough job of educating its citizens today will lead the world of tomorrow. And the nation which develops for every person who desires it—education easy to obtain, easily affordable, stimulating, exciting, universally available—must utilize the modern technological miracles available.

The United States must then make these techniques available to all nations, particularly to those nations with little hope of ever duplicating over traditional school system.

We at Radio New York Worldwide believe we have much to offer in this regard. Because we are an international broadcast organization tied to no particular market, to no particular list of sponsors, to no particular

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audience, we have begun to think in universal listener needs. Among these we place a high priority on the use of our medium for education, particularly by those who find it difficult to attend school for one reason or another.

We are discussing now a University of the Air in which courses in sophisticated subjects such as economics, physics, and sociology can be cast in transmittable form and relayed to listeners on our continent and elsewhere by a combination of short wave, local rebroadcasts, and possibly shipment of tapes.

We are not at all interested in simply presenting such educational material electronically. We are vitally absorbed in the idea that we must accomplish in any educational broadcast effort the three essentials of a good advertisement.

1. *We must attract attention to the programs* by including values which will induce the listener to become an actual participant. In other words, we must be sure they excite, interest, and even perhaps entertain the listener while they impart knowledge. These programs would be advertised in other media so that the largest number of people can know of their availability.

2. *We must state believable and easily understood propositions.* This requires that communicators of the subject transmitted be entrusted with the task of actually conveying the information contained in each program. If a simulated situation will make what is to be absorbed easier to comprehend, we will simulate. If current news items illustrate a point, we will include news. If questions from a live group present at the time of taping will enhance the retention and assimilation of the subject matter, we will have such a live group present to participate.

3. *We must require some action on the part of the audience.* If live telephone calls with questions to the point will heighten comprehension, we will make provision for such calls. We may ask for written reactions; we may even ask for taped responses from those who own such equipment.

V

I believe such methods will work. I believe we will blaze new pathways in the use of the broadcast media in conveying education.

But no broadcast organization can attempt this job on its own. The experiment must be funded properly, not only to finance the curriculum, the resource materials, the production and dissemination, but also to research the effectiveness of such departures from the traditional educational approach.

This project calls for daring on our part, for it is almost heresy in my field of broadcasting to sacrifice the mass audience for the select group. It also calls for courage on the part of the educational institutions which must become involved in such a project. There will undoubtedly be derisive comments from both broadcaster and educator alike at this trial marriage.

I do not believe we can launch this full-blown in the United States. I do believe we must prove its worth elsewhere first. The Caribbean represents an area close enough to be reached regularly and consistently with such educational programming. It is also close enough for speedy response and research. The Caribbean has no indigenous center of learning. But the needs are great.

Is there any doubt that any measure of success in this area of diverse languages, customs, and derivation would demonstrate the validity and the worth of such an approach elsewhere? In this area favored by climate and natural resources, what would be the long result of a dynamic explosion of higher education and sophistication among the people?

But we must begin now. Our nation, more than any other, must lead the way. Why? Because our academic freedom, our freedom to inquire, our freedom to explore, to dissent, to invent, to improvise, to express divergent views, is more conducive to the true educational process than any other I know of.

What will happen if the tightly controlled, state-oriented educational system of our ideological opponents avails itself of the modern communications tools first and learns to use them more effectively?

The satellites are in the sky. Their uses are as yet only dimly perceived. The project I have been discussing is but a pilot-study as to how they may be used. Imagine the impact of a satellite-transmitted series of courses, universally receivable with complete reliability in any area of the world in a variety of languages.

We live at a unique moment in the history of the world. This is the first time in which every man everywhere can know instantaneously what is happening to any man anywhere. This makes it also possible for every man everywhere to know what any other man knows. Will we lead the way in offering freedom to learn to every man? We must—it is our obligation—for having been primarily responsible for devising these miraculous new tools of communication, we now must lead the way in demonstrating their use for good, for the benefit of mankind and for the attainment of that single goal which we believe paramount: that each man may attain for himself sufficient knowledge to fulfill his individual destiny, and in so doing contribute to the well-being of all men.

**Charles Frankel: CULTURAL UNDERSTANDING OF THE
CARIBBEAN**

THE 15 CARIBBEAN CONFERENCES that have preceded this one have convened in a context of real and urgent problems. That is certainly the setting of this one. There is no point in blinking the facts of today's world. As we all know, the Caribbean area has provided headlines of crises and conflict in recent years and even in recent months. This is an area in which forces of change and issues of ideology, operating in the wider world as well, have come into sharp and dramatic focus.

It is not necessary for me here to try to go behind the headlines, to explain what has happened in the contemporary political world and why. What I think I can most appropriately do, however, is to try to look more deeply below the surface of events—to see what fundamental factors there are that work for misunderstanding and what factors there may be that can work for better understanding.

I

We will get some clues, I think, if we take even a quick look at the history of our cultural relations with Caribbean countries. The principal impressions there, and here, are not hard to discern and define. Only one part of American culture has been very visible in the Caribbean and only one part of Caribbean culture has been very visible in the United States.

The Caribbean peoples have seen extreme phases of American culture—luxury hotels and rich tourists, for example, also, the techniques and the products of mass advertising and mass entertainment. We have seen

considerable numbers of the Caribbean peoples come to us as poor migrants or as refugees.

These are not definitive statements of the leading impressions either there or here, but they serve to suggest some of the prime impressions and to lead to the first point I want to make. It is this: despite the proximity of the Caribbean countries to our own (since we border the Caribbean, we are really one of them), neither they nor we are really in touch with the sides of life that give people their greatest joys, their greatest sense of achievement, their greatest sense of the different meanings, to them, of existence.

The existing discourse, such as it is, falls into certain patterns: they say we do not understand them; we say they do not understand us.

If we want to deal with this problem more effectively than we have in the past, we will need to get a discourse going that will be based on the common—and I might say the more universal—problems of the nations that border on the Caribbean, the United States included.

Let me cite an example of what I mean. We happen to be a rich country. But need this be held against us? Our economic position can be a resource for the whole area. This is not meant to be an announcement of a giant giveaway program. But it can, and should, be construed as expressing the desire of the American people—as indeed the Alliance for Progress does—to help in the creation of a world community of fine and independent states in which there is room for diversity.

II

Earlier this week we had at the White House Conference on International Cooperation some forthright words on the importance of preserving diversity, within this context of free and independent states. A committee of representatives of the private sector, with the participation of government consultants, was constituted a year ago under the awesome title of the "Committee on Culture and Intellectual Exchange" and asked to make recommendations. Its report sets up some striking goals for men to try to reach. Not just in the Caribbean area, of course, but in the world at large. But certainly, to be sure, there is applicability to the Caribbean region.

The Committee saw greater international cooperation coming out of the greater comprehension of human diversity and the ability to look across national barriers and to recognize the common kinship and destiny of mankind. There are hundreds of different national groups in the world, each with its own history, each with its own traditions, religion and moral values, each with its own style in speech and art and family life. This diversity, for all its value in the human community, is in itself

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a source of many problems. But writers, artists, teachers and philosophers can prepare the ground for a world that is nourished and not decimated by its diversity.

Each of the different national groupings in today's world—with its own historical experience, proud traditions, religious and moral preconceptions, its own style in speech and art and family life—has a strong consciousness of its own special character, of its own special hopes for the future. This belief of each people in its cultural uniqueness is a central factor and force in international affairs. But the range and variety of human cultures is also an extraordinary resource for individuals and for mankind.

It is a resource for the individual because each man is stronger and in some way better when he knows and loves his own soil. It is a resource for each culture because each is enriched and deepened through contact and communication with other cultures. And it is a resource for mankind in its collective effort to survive and prosper because diversity offers alternatives and thus acts as a powerful incentive to creativity. It is to be preferred, practically, morally, and esthetically, to an enfeebling uniformity.

Aristotle defined a political community as the group of people within the range of a single man's voice. By that definition, the inhabitants of this planet are rapidly becoming a single community. It is necessary to create a structure and a spirit for communication among the members of this community that is consistent with the preservation of the differences between them, but that will also contain these differences and turn them to the common benefit of humanity.

Such a structure consists in part of laws, treaties, and concrete programs for collaboration and mutual assistance. But it also consists of things that are at once less palpable and more immediate—the encounters of individuals from different cultures face-to-face, the sharing across the borders of the achievements that each group enjoys, the focusing of common energies not only on men's common values, but also on their common problems and concerns. The American ideal is a world in which diversity reigns and is cherished, but in which the nations together practice tolerance and good will and enjoy peace under law. Such a structure of law, if it is to be fully effective, presupposes the growth among men of habits of cultural empathy and capacities for successful communication. Underneath the formal relations of sovereign states, there must emerge habits of mind and types of human discourse that are capable of cutting beneath the differences between men to the things that speak to their common dependence and destiny.

III

Perhaps the single most needed step I can suggest is to find ways of initiating, and maintaining, a broader and more disciplined discourse among the intellectuals of the Caribbean area, ourselves of course included. The absence of an effective dialogue—and only a confrontation that is personal, continuing, responsive, and rigorously intellectual deserves to be called by that word—is one of the principal factors that has adversely affected the relations of the United States with Latin America.

In speaking of the disciplining of international intellectual discourse, I mean, first, the gradual tempering of the stereotypes that affect intellectual as well as popular analyses of world affairs. Personal contact between the intellectuals of different nations tends to undermine the organized fantasies that grow up when such contacts are missing. Given the right conditions, and given a reasonable effort on the part of intellectuals to make sense to each other, such personal contact encourages the qualifying of generalizations, and the recognition of the differences of opinion that exist within national groups. If these contacts are maintained on a continuing basis, they can also exercise a countervailing pressure against intellectual and bureaucratic inertia. As the relations between the United States and the Soviet Union over the last decade illustrate, there is a notable tendency in international affairs to persist in analyses and policies after the facts have changed. Vested interests, intellectual and practical, which have piled up around the old analyses, conspire to produce this result. The promotion of close association between the intellectuals of different nations can discipline discourse in the simple sense that it can help bring it closer to the complex and changing facts.

Closely connected to the criticism of stereotypes is a second objective designated by the phrase “the disciplining of discourse.” This is the creation of opportunities for kinds of discourse that will encourage intellectuals in different countries to speak to each other rather than past each other. A good example of existing difficulties is offered by discussions of democracy. In approaching this theme, American scholars, as often as not, are little concerned with ultimate questions about the basic meaning and validity of democracy, a system whose character and justification they take for granted, and prefer to discuss more technical questions about its workings. A larger percentage of foreign intellectuals, in contrast, are interested in debating definitions and ultimate ideals. The issues, in consequence, are never quite joined, and discourse is frustrating.

Such a disciplining of international discourse would be unlikely to succeed, however, if it were not accompanied by an attempt to engage

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in international discourse on larger, ideal themes. The historical character and moral significance of the radical changes taking place in twentieth-century civilizations are any civilized man's concern. It is not clear that men can discuss them without sharpening the ideological disagreements that separate them. It is clear that even men of thorough reasonableness and good will cannot be expected to come to the same conclusions about them. But it is also clear that when men do not talk to each other about these questions, they are not likely to understand each other very well.

Plainly, there are limits to what should be attempted. When individuals are known to be nothing but spokesmen for fixed, dogmatic, and officially consecrated outlooks there is not much point in asking them to take part. If they can be expected to speak as representatives of their nations rather than as individuals they will be out of place. And if they seek intellectual bargains and mergers they will also be as out of place as if they participate only to engage in polemics: they will cast doubt on the honesty and integrity of the proceedings. For the object of such confrontations is to allow men to face other men who see things differently, and to talk with them, in a friendly spirit, as clearly and responsibly as they can manage. It is not to attain agreement or to win approval for the policies of one's country. In the long run, it is less important to see eye to eye with others than to seem to be interested in the kinds of questions in which they are interested and able and willing to discuss these questions with them.

When I think of the possibilities of this kind of enlarging discourse I appreciate even more the contributions that conferences such as this one can make. I think too of the men and women of high ability at both ends of the lines of communication we could have; and of some, like my friend W. Arthur Lewis, who have themselves been at *both* ends—he first at the University of the West Indies, now at Princeton University.

Such a discourse, or dialogue, will certainly tell us a great deal more than we now know about Caribbean culture. If we know something of the contributions of the Caribbean peoples to their own distinctive artistic forms, we know relatively little of their contributions to the more classic forms of literature, music, and painting.

Perhaps we would find in a greater knowledge of the Caribbean cultures some correctives to our own tendencies to put too much trust in the idea of pragmatism, both philosophical pragmatism and the unphilosophical kind. In the more generous and larger contact we could have with other people of the Caribbean area we could perhaps clarify some of our views towards pragmatism—philosophical and otherwise—as working rules of life.

Philosophical pragmatism, in its most important respect, is the very

reverse of what is commonly meant by pragmatism. For the spontaneous pragmatist, the great purpose is nothing else but the exercise of human ingenuity and resolution, nothing else but the solving of problems whatever they may be. Not rest but motion, not yesterday's victory but the prospect of tomorrow's, not where you are going but the excitement and pleasure and the demonstration of power that accompany getting there—these are what give life its savor to the pragmatist.

The most important insight of philosophical pragmatism has to do with the key importance of ideas as regulators and directors of human experience. It is, in fact, a restatement of the old philosophical dream that men might be guided in their lives by ideas and principles they have deliberately examined and chosen.

In general, the pragmatic distrust of abstract creeds is not a workable attitude at times when social change is rapid and radical. At such times people cannot be expected automatically to accommodate themselves to change, and bit by bit to learn the new ways of thinking and feeling that will fit them to their new environment. They are likely to need some sense of where they are going and why they are undergoing the experiences that they are. They need to be able to interpret and understand what is happening to them. Pragmatism, *tout court* does not answer this need. Worse still, in its apparent indifference to the problem, it tacitly implies that jobs, scholars, or a new government bureau are quite adequate substitutes for a clear sense of direction and an understanding of the meaning of events. This weakness in pragmatism becomes particularly conspicuous when the attitude is transported overseas and Americans make the effort to work together with, and to understand and be understood by, the members of developing nations.

American pragmatism can seem to be nothing but unrelieved busyness, nothing but smiling good will and an inability to sit still. Pragmatism ignores the fact that many people want more from politics and social change than the improvement of their physical well-being. They want a sense of coherence and overarching purpose; they want meaning. Pragmatism works, as it has in the United States, only when that question of meaning is largely settled, only when the general direction of events seems clear and desirable. That is why a "pragmatic approach," and nothing more, in areas like Latin America is pragmatically self-defeating.

IV

The kind of discourse we so much need is one that must be conducted, in the main, by that large and inclusive company we can call for convenience "intellectuals." The Duke of Wellington had another name for them—"the scribbling set"—by which he meant those who write, record,

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speak, otherwise articulate and give shape to the principal ideas and descriptive labels of their time and country. Those people have an enormous influence, of course, on other people and, in actual fact, in the whole field of international relations.

They exercise great power. But this varies in accordance with the social situation and political realities of different countries. In some countries of Latin America, for example, the people who hold power in government or the economy are deeply hostile both to intellectuals and to social reform. It is not a mistake or a dogmatic ideological illusion for an intellectual in such circumstances to view an alliance with power as a defection from principle.

I think the opportunities for greater educational and cultural commerce between our countries are evident to us all. Exchange-of-persons programs, both private and public, serve this end. They do it best when there is truly a two-way flow—when we, for example, are hearing and seeing as well as sending.

But the discourse I mean to suggest goes beyond that arising through exchange-of-persons. Given a reasonable effort on the part of intellectuals to listen to each other and to try to make sense to each other, direct intellectual confrontations may contribute to an enlarging international discourse that now exists in some cases only fitfully and sometimes precariously. If there is a point in avoiding angry forms of high ideological recrimination, there is no point in avoiding the discussion of high intellectual themes. It is particularly important for American intellectuals, with their sophisticated methodologies, their love of concrete problems, and their suspicion of broad abstractions, to remember this.

What the much used and much abused word "democracy" means, what the relation is between individual freedom and the emergence of massive forms of social organization, what the function of intellect itself is in a technical and specialized society—these are questions with roots that go far back in the history of intellectual discussion. It is clear that even men of thorough reasonableness and good will will not come to the same conclusions about them. But it is equally clear that if men do not talk to each other about such questions at all, they are not likely to understand each other very well. And this causes trouble when they turn to the more practical matters on which international accommodation depends.

Part V

DIPLOMATIC RELATIONS



**Charles G. Fenwick: INTER-AMERICAN RECOGNITION
POLICIES**

I

THERE CAN BE little doubt but that the problem of the recognition of new governments is one of the most difficult in the whole range of international relations. It is not as important, indeed, as the fundamental problem of the security of the state, but bears closely upon it and at times involves it directly.

When the question is asked, "Who's who in the community of nations?" the inquiry is as to the membership in the community of a particular group calling itself "a state," claiming to have all the rights and privileges of a state and to be free and independent in the exercise of its domestic activities. To hold this position it must be recognized as a state by the other members of the community, unless it happens to belong to one of the early charter members of the community, who in a sense always were states. A hundred years ago it was quite a problem to know whether a certain political group was or was not a state. Today the membership list of the United Nations answers the question in all but a few cases.

But that is not our problem, and it is only referred to here because it is so frequently confused with the problem of the recognition of new governments. Granted that a particular state is an acknowledged member of the international community, the question we have to answer is, who is to speak for it, who is to represent it in its relations with other states, who is to claim its rights and be responsible for its obligations? International law leaves it normally to each state to decide for itself the

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question who is to represent it; and so long as constitutional procedures are followed there is no problem. One government succeeds to another and is automatically accepted as the lawful government with which other nations will deal. Changes of government thus mean nothing so long as they are within or in accordance with constitutional procedures. Occasionally cases arise in which the constitutional succession is not clear, but these are rare and of no practical consequence. In general the Constitution is the law of the land, and whether it represents in fact the will of the people is a domestic question with which other states have no concern.

But when, as a result of a revolution, a new government comes into power in violation of constitutional procedures the question arises whether other states are called upon to accept the new government as the lawful government and deal with it as the official representative of the state. Perhaps the revolution is not yet over, and the constitutionally elected government may succeed in overthrowing the usurper. Other states clearly have the right to hold back for a time and see whether the new revolutionary government is stable, whether it can maintain itself against the government it has dispossessed, whether it is prepared to live up to the obligations of the state. At this first stage recognition is given *de facto*, that is, the new government is accepted for the necessary relations of normal intercourse. Then, when after a period of time the government appears to have the necessary stability, the second step of recognition *de jure* is taken and the issue is closed. Recognition, once given, appears to be final; however, the subsequent conduct of the new government may fail to conform to the promise given at the time of *de jure* recognition.

Such are the broad principles governing the recognition of new governments. But as we shall see, the actual cases presented do not always adjust themselves to the principles. Stability may be difficult at times to determine, and the methods used by the rebel party to secure stability may on occasion be such as to lead other states to hesitate to accept as the lawful representative of the state, a leader or a party whose moral character seems to be below the minimum standards of international intercourse. Recognition implies that the new government will respect the obligations of the state, observe treaty provisions, and cooperate with other states in measures of community welfare. Will the particular government conform to that standard? Time may be needed to tell.

Is there an obligation on the part of third states to recognize a new revolutionary government that has come into power in violation of constitutional procedures? The subject has been widely discussed by jurists and in the statements of foreign office spokesmen. In principle it would seem that if a particular state has been accepted as a member of the

international community there would be an obligation on the part of other states to recognize its government once that government has met the conditions by which it can be identified as the representative of the state. But in view of the fact that these conditions have been at times difficult to determine, it was held in 1944 by the Legal Adviser of the Department of State:

The question as to whether and when a new government that comes into existence is to be recognized is a matter entirely within the discretion of the recognizing government. It may grant or withhold recognition for any reason that to it seems proper and is under no obligation to state its reasons for withholding recognition, although this is usually done as a matter of practice. . . . Recognition . . . is wholly within the discretion of the recognizing government.

This, it would seem, was laying down much too broad a rule. At the opposite extreme would seem to be the statement of the Secretary of State in 1949:

We may have the gravest reservations as to the manner in which it [the new government] has come into power. We may deplore its attitude towards civil liberties. Yet our long range objectives in the promotion of domestic institutions may, in fact, be best served by recognizing it and thus maintaining a channel of communication with the country involved. . . . Since recognition is not synonymous with approval, however, the act of recognition need not necessarily be understood as the forerunner of a policy of intimate cooperation with the government concerned.

Again, by contrast, was the statement of Secretary Stimson in 1931: The present administration has refused to follow the policy of Mr. Wilson and has followed consistently the former practice of this Government since the days of Jefferson. As soon as it was reported to us, through our diplomatic representatives, that the new governments in Bolivia, Peru, Argentina, Brazil, and Panama were in control of the administrative machinery of the state, with the apparent general acquiescence of their people, and that they were willing and apparently able to discharge their international and conventional obligations, they were recognized by our Government.

It might be a matter of discussion whether what the Secretary of State said we were doing as a matter of course did not in fact amount to a legal obligation so to act.

II

In the light of these principles let us examine a number of the leading cases that have arisen in the foreign relations of the United States and the adjustment of principles to specific situations. As early as 1792

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Thomas Jefferson, as Secretary of State, when presented with the question of recognizing the government of the French Revolution, laid down the broad rule, which the Department of State frequently asserts it has held to ever since, that "it accords with our principles to acknowledge any government to be rightful, which is formed by the will of the nation, substantially declared"; and again in 1793 more explicitly, "We surely can not deny to any nation that right whereon our own government is founded—that everyone may govern itself according to whatever form it pleases, and change these forms at its own will; and that it may transact its business with foreign nations through whatever organ it thinks proper, whether king, convention, assembly, committee, president, or anything else it may choose. The will of the nation is the only thing essential to be regarded." Apart from the confusion of the recognition of a new state with that of a new government, Jefferson was not ready to take into account whether the government of the Revolution really represented the will of the French people, or whether the new government, changing from year to year, was prepared to observe the obligations of international law of that day. Any such questions would have been impractical in his day.

For a half century following Jefferson's decision in 1792 the United States held to a consistent policy of recognizing *de facto* governments without inquiry into any other item than actual stability, disregarding the circumstances under which they came into power. Under the international law of that day the revolt of an army colonel with no other motive than succession to the presidency was a domestic affair in which other states had no right to interfere unless some direct interest of their own were involved. In 1829 Secretary Van Buren declared with reference to a new government in Colombia: "So far as we are concerned, that which is the government *de facto* is equally so *de jure*." In 1849 Secretary Buchanan went so far as to say that it was sufficient for us to know "that a government exists capable of maintaining itself; and then its recognition on our part inevitably follows." But in this case he was referring to a change in the government of France, which, being among the leading powers of Europe, might well command greater respect for its changes of government. Doubtless Jefferson's rule of the will of the people was implied in both cases, but no reference was made to it.

But what was a *de facto* government? Was it anything more than a mere temporary group in control of the offices of state? In 1856 President Franklin Pierce elaborated the designation by referring to a "government *de facto* accepted by the people of the country," adding that their determination might be "by positive action or by ascertained acquiescence." This was coming nearer to Jefferson's "will of the people, substantially declared." A year earlier, in 1855, the United States

found the government of Rivas-Walker in Nicaragua not to be *de facto* because it appeared to be "no more than a violent usurpation of power, brought about by an irregular self-organized military force, as yet unsanctioned by the will or acquiescence of the people of Nicaragua."

As the years went by and revolution succeeded to revolution the United States began to look more critically upon new revolutionary governments. Frequently a government came into power on the alleged ground of opposition to the policies of its predecessor involving some concession to foreign interests. Hence it became the practice to make it a condition of recognition that a statement be made of the intention of the new government to respect the obligations of treaties and in general to abide by the obligations of international law. In 1876 the United States delayed recognizing General Porfirio Díaz as President of Mexico until assured that his election was approved by the people of Mexico and that his administration was "possessed of a stability to endure and of a disposition to comply with the rules of international comity and with the obligations of treaties." By contrast, however, the requirement was omitted in the case of the new government of Brazil in 1889 following the deposition of the Emperor, although on its part the government voluntarily proclaimed respect for contracts and engagements.

It must be confessed that in some cases the temptation was great to use recognition as a bargaining power, particularly where the conditions exacted were on the outer fringes of international law. "I will recognize you if you will agree to respect the concessions granted by the government you have displayed." Such a condition was clearly unwarranted as international law, but a natural response to a situation in which there were outstanding controversies awaiting settlement. Recognition clearly should not go beyond acceptance of the professed intention of the new government to observe the obligations of international law. That, indeed, might be assumed from the law of the succession of *de jure* governments, but inasmuch as many of the obligations of international law are somewhat uncertain, the practice has developed of asking for a formal declaration of the intention of the new government in that respect.

A new phase of the problem of recognition appeared with the opening of the twentieth century. Could the procedure of recognition be used as a means of discouraging the numerous revolutions which had come to be a grave disturbance of the general peace? Perhaps an agreement beforehand by a number of states to refuse to recognize governments coming into power not so much as the result of a popular revolution seeking to depose a dictator, but merely as the outcome of a barracks conspiracy having as its primary objective the seizure of the offices of government for the promotion of the personal fortunes of the leaders. In 1907 the five Central American states set an example in signing a treaty

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to that effect, withholding recognition until such time as freely elected representatives of the people had constitutionally reorganized the country. Revolutionary governments might thus in due time be recognized, but not until the will of the people had been clearly demonstrated.

The United States, although not directly involved in the Central American project, gave its support to it, as it did to the Central American treaty of 1923 which went further than the treaty of 1907, providing that even subsequent constitutional reorganization would not be sufficient to justify recognition of the new government if connection should be indicated between the new government and the leaders of the revolution, described as a "dynastic succession of dictators." Unhappily the plan did not prove to be a success. Revolutions vary in character from the petty ambitions of army colonels to genuine popular uprisings against corrupt dictators who, having come into power, it may be, by constitutional procedures, keep their hold by measures of coercion and the denial of fundamental rights. Perhaps the only criticism of the Central American effort was that it came before it had the support of the inter-American community and the principles of the Charter behind it.

It was to be expected that any significant delay on the part of other states in recognizing a new revolutionary government would be resented by it. Recognition meant the acceptance of the new government in international intercourse; to delay giving it would necessarily have the effect of weakening its position and would be looked upon as an unjustified intervention in its domestic affairs. This was particularly so in Latin America during the century following independence. An exception was that of Ecuador, whose Foreign Minister, Sr. Tobar, proposed in 1907 that the American republics collectively should, for their own good name as well as for humanitarian considerations, intervene in the internal dissensions of the hemisphere by refusing to recognize *de facto* governments coming into power by revolutions contrary to the constitution of the country.

A long controversy with Mexico began with the refusal of President Wilson in 1913 to recognize General Huerta who had led a revolution against the duly elected president. The fact that President Madero was killed while being taken into custody made the case more challenging. President Wilson took the position that the United States could have "no sympathy with those who seek to seize the power of government to advance their own personal interests or ambition"; and it was perhaps more the justification offered for his refusal to recognize than the fact itself that gave rise to criticism from other Latin American states. For the President seemed to imply the right of the United States to inquire into the constitutional legitimacy and personal character of the new government rather than into its stability. Subsequent delays in the recogni-

tion of new Mexican governments were due to the radical provisions of the new Mexican Constitution of 1917 in respect to the nationalization of foreign-owned mineral rights believed by the United States to be contrary to international law.

Influenced, doubtless, by the long controversy between the United States and his country, the Foreign Minister of Mexico, Genaro Estrada, proposed in 1929 the outright repudiation of the practice of recognition, designating it an "insulting practice," offending the sovereignty of the state and implying the right of other states to pass upon the internal affairs of the state. The maintenance or withdrawal of ambassadors was proposed as an alternative; but no test was offered for determining whether a revolutionary group calling itself the government of the country was actually in sufficient control to justify the maintenance or the withdrawal of diplomatic representatives. The simplest answer to the charge of "intervention" is that unless third states can inquire into the character of a revolutionary government and the conditions under which it has come into power they have no way of knowing how far they can safely trust it as the representative of the state, entitled to pledge the good faith of the state and create contractual obligations for which a succeeding government might fairly be held responsible. The inquiry by third states is, therefore, not of their own choice, but is one forced upon them by conditions created by the very government resenting the intervention.

A Mexican scholar, César Sepúlveda, has observed as follows:

If the doctrine is examined in detail, its inherent limitations can be noted. In the first place, it appears to contradict itself, because, on the one hand, it objects to the withholding of recognition on the basis that it constitutes an insulting, disgraceful practice, while, on the other hand, it reaffirms implicit recognition (the maintenance or withdrawal of ambassadors), with all its undesirable effects.

This now seems to be the majority opinion except in a few states where the reaction against what is considered as "intervention" is extreme.

III

With the coming of World War II new issues were presented and the question of stability was subordinated to the subjective test of the willingness of a particular government to cooperate with other American States in the defense of their neutrality and later in the defense of their continental security. In December, 1943, the Emergency Advisory Committee for Political Defense, which had been set up at Montevideo for the purpose of coordinating measures to counteract the subversive activi-

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ties of non-American nationals, adopted a resolution recommending to the American governments which had declared war upon the Axis Powers or which had broken relations with them not to recognize during the existing world conflict a new government established by force before consulting with one another in order to determine whether the new government was complying with inter-American commitments for the defense of the continent. In the case of Argentina, President Castillo was forced to resign in 1943 because of his pro-Axis policy; and the United States delayed recognizing his successor, General Rawson, pending more precise knowledge of his foreign policy. President Ramírez was recognized only when assurances were received that the new government would break relations with the Axis Powers. His successor, General Farrell, was denied recognition pending assurance of his policy of cooperation; and the Inter-American Conference at Mexico City in April, 1945, "deplored" that Argentina had not joined with the other American states in supporting the "principle of solidarity of the hemisphere against all types of aggression." After the overthrow of Presidents Farrell, Perón, and Leonardi, President Aramburu was finally recognized by the United States in 1955 upon receiving assurance from the Foreign Minister that the Argentine government was imbued with the highest democratic ideals.

The decade of the fifties was marked by a succession of revolutions in both Central and South America, in which the traditional principles of stability and willingness to observe obligations were applied, accompanied on occasion by informal consultations by the United States with other American governments in the effort to obtain simultaneous if not collective action. In order to discourage the numerous barracks revolutions emphasis was put in many cases upon the restoration of representative government, in accordance with the principles of the Charter. By contrast it is of interest to note that in the case of the *coup d'état* in Brazil in 1937, when the president in office (Vargas) abrogated the Constitution, recognition was not called for; nor did the question of recognition arise when, under compulsion, President Vargas resigned in 1945 and the President of the Supreme Court took his place; nor again was recognition called for when President Goulard was forced to resign in 1964 and was succeeded by Castello Branco. When relations are broken with a *de jure* government and subsequently restored, as in the case of the Dominican Republic in 1962, when the Council withdrew its quarantine that had been imposed by reason of the complicity of the Dominican government in the attempted assassination of President Betancourt, there is no call for recognition as such.

Is there a sufficient basis of uniformity in practice upon which a rule of law governing recognition could be developed? As early as the meet-

ing of the International Commission of Jurists at Rio de Janeiro in 1927 an effort was made to lay down the principles upon which a collective decision of the American States could be reached. The draft stated the principles in simple terms: "Every abnormally constituted government may be recognized if it is capable of maintaining order and tranquility and is disposed to fulfill the international obligations of the nation"; but it failed adoption by the Commission.

In view of the difficulties that had arisen during the World War, an effort was made at the Conference at Bogotá in 1948, at which the Charter of the Organization of American States was adopted, to formulate a rule of law governing recognition. But it was found impossible to reach an agreement. In consequence the Conference adopted a declaration, as follows:

1. That continuity of diplomatic relations among the American States is desirable.
2. That the right of maintaining, suspending or renewing diplomatic relations with another government shall not be exercised as a means of individually obtaining unjustified advantages under international law.
3. That the establishment or maintenance of diplomatic relations with a government does not imply any judgment upon the diplomatic policy of that government.

The declaration clearly avoids any suggestion of intervention in the domestic policy of the state; but at the same time it fails to meet the problem of the conditions upon which recognition should be granted.

With the creation of the new Inter-American Council of Jurists a second effort was made at its first meeting in 1950 to formulate a general rule, based upon a draft submitted by the Juridical Committee, to the effect that a *de facto* government had the right to be recognized whenever it fulfilled the two conditions of effective authority over the national territory, based on the acquiescence of the people manifested in an adequate manner, and on ability and willingness to discharge the international obligations of the state. But the Council of Jurists was unwilling to accept the draft of the Juridical Committee, the United States delegation taking the position that recognition was not a "right," that the tests governing recognition were not juridical in nature, and that it could not subscribe to the effort of certain of the delegations to give them that character. The same position was taken when an attempt was made to prescribe the observance of fundamental rights as a condition of recognition. The result was that the Council of Jurists got no further than a resolution to continue the study of the problem at its next meeting. At the meeting of the Council in 1953, however, no further progress was made, and the failure to include the subject on the agenda

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of the Tenth Inter-American Conference of 1954 indicated the acceptance of the opinion of the Council of Jurists that it was premature to attempt a regulation of the subject.

A fair criticism of the approach of the Council of Jurists to the problem is that it limited its outlook to the traditional understanding of "the international obligations of the state," which include since 1948 the obligation of respect for fundamental human rights. The effective exercise of representative democracy is now a formal treaty obligation under the Charter, and respect for fundamental rights is essentially connected with it; and to add to the importance of the obligation the Tenth Inter-American Conference of 1954 reiterated its adherence to the Declaration of the Rights and Duties of Man of 1948, as well as to the Universal Declaration of the United Nations. It is no longer a "domestic question" how a state conducts its government; and while the American states would not normally feel called upon to investigate too closely into the conduct of elections or the respect for fundamental human rights there might well be cases where the violation of the principle might be so grave, as in Cuba, that the refusal of recognition could be justified on that basis. This would require a longer delay between *de facto* and *de jure* recognition, but it would be a constructive step that might have far-reaching effects. As a technical matter it would properly fall under Article 39 of the Charter as a problem "of an urgent nature and of common interest."

What explanation is to be given for the recognition by the United States of the government of Fidel Castro in Cuba on January 6, 1959, within six days of the overthrow of the Batista government? No special importance appears to have been attached to the recognition as being that of a "provisional government." Normally the practice would have been to give *de facto* recognition and await a briefer or longer period to determine the stability of the new government and its willingness to abide by the established rules of international law, including inter-American obligations. But apparently there were political reasons governing the decision rather than the traditional conditions. Perhaps a prompt recognition might give to the new government the assurance that the United States was in sympathy with its program of social reform, reports of which had come from sources in touch with the rebels before they were able to take over the government. Castro had given as yet no sign of the Communist convictions which he later declared he had held all along.

The prompt action taken by the United States on April 24, 1965, to prevent an invasion of the Dominican Republic by forces organized in Cuba and believed to be Communist-inspired served notice in advance that no government established by them would be recognized by the United States. But the situation promptly became one of active interven-

tion on the part of the Organization of American States, which sought to mediate between the invading rebels under the command of General Caamaño Deno and the Junta government forces, and to secure the establishment of a provisional government which could control the situation until elections could be held. On August 31 an agreement was signed between the parties accepting Héctor García-Godoy as president and providing for elections within a period of nine months. Recognition of the new government by the United States was given on September 4. The "Act of Reconciliation," as it is called, provides for the withdrawal of the peace force following the establishment of the new duly elected government. The issue, therefore, was more than one of recognition of a new government; rather it was one of collective intervention under Article 19 of the Charter, justified by the resolution of the Caracas Conference of 1954 which declared that "the domination or control of the political institutions of any American state by the international Communist movement . . . would constitute a threat to the sovereignty and independence of the American States." The decision that there was such a threat was taken by the Council of the Organization of American States, acting provisionally as Organ of Consultation.

It is an accepted rule of international law that recognition, once granted, is final. A *de jure* government continues to be *de jure*, however far its conduct may depart from the pledges it gave at the time it was recognized as such. Is this a wise rule? The *Sabbatino* case raises the question. In spite of the repudiation by the Cuban government of its obligations under the Charter of the Organization of American States and in spite of its violations of international law in respect to the confiscation of alien property without adequate compensation, it was permitted to bring suit before the United States courts for the recovery of property, and the "act of state" doctrine was applied precisely as if any other *de jure* government had brought the suit. Would it not be reasonable to hold that when a government denies the fundamental rights of its citizen body and in a sense excludes itself from normal intercourse with the other members of the community, *de jure* recognition should be reduced to *de facto* and its claim to speak in the name of the state should be held temporarily in suspense? It is not enough to break relations with such a government, and yet let it act as if it still represented the will of the people to whom it denies freedom of speech, freedom of the press, and freedom of assembly which are the only tests by which any fair judgment of public opinion can be obtained.

IV

The brief survey here given of the recognition problems as they have arisen in our inter-American relations has taken no account of the problems that have presented themselves in our relations outside the hemisphere. These have been of recent years literally innumerable, due partly to conditions arising out of the territorial settlements following both World Wars and partly to the emancipation of Near and Far Eastern and African states from colonial control. The postwar cases involved for the most part political issues, and the emancipation cases the normal combination of stability and willingness to abide by rules of international law with which they were not on all points in sympathy.

Two outstanding cases deserve special mention. In the case of the Soviet government of Russia following the revolution of 1917 the situation was complicated by the desertion of the Allied cause by the conclusion of a separate treaty of peace with Germany. But at the close of the war, when it appeared that the new government was stable, the leading powers, one by one, began to give recognition, the United States being the outstanding exception. In 1923 Secretary Hughes emphasized that while stability was important, and indeed essential, it was not all that was necessary. Good faith in the discharge of international obligations was also essential, and that was lacking. It was not until 1933 that the United States finally gave recognition, and then only upon receiving definite assurances that the Soviet government would "refrain from interfering in any manner in the internal affairs of the United States."

The status of the government of Communist China is more complicated. With the defeat of the *de jure* government of Chiang Kai-shek in 1949 and the occupation of continental China by the Communists, the refusal of the United States to grant recognition was based upon the uncertainty of the control of the Communists, upon the aid given by them to North Korea in the war of 1950, and upon the fact that the government of Chiang Kai-shek had occupied the island of Formosa and was still hoping to be able to invade the mainland and take over the government. Refusal to recognize Communist China continues, and it takes in successive years the dramatic form of denying to Communist China a seat on the Security Council of the United Nations, attended by the offer of military protection to Formosa against an invasion from the mainland. Other leading powers take a different position, but the influence of the United States has thus far succeeded in defeating the admission of delegates of Communist China to the General Assembly of the United Nations. The stability of the Communist government is of secondary concern in contrast with its flagrant violations of international law.

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**Maurice J. Mountain: UNITED STATES MILITARY
ASSISTANCE IN THE CARIBBEAN AREA**

IN THE 15-YEAR PERIOD from 1950 to 1965 the United States, under its Military Assistance Program, has provided nearly \$130 million worth of equipment and training to the armed forces of the 12 republics of the Caribbean area.* It is the purpose of this paper to describe the origins and objectives of this program, how it has been carried out, the problems and criticisms it has encountered, and some of its achievements.

I

Since the first thing that must be understood about the Military Assistance Program, in whatever part of the world one chooses to look at it, is that it is an instrument of United States foreign policy; the logical place to begin an examination of it in the Caribbean region is with a statement of the fundamental factors of United States policy toward this area. The United States political interest in the Caribbean is made up of four distinguishable elements, most of which have remained substantially constant since the earliest days of the Republic even though their outward forms have changed with the times. In the approximate order of their development, there is, first of all, the military element—nowadays referred to as considerations of national security—which grows out of the geographical proximity of the area to the continental United States, out of the importance of the Panama Canal as a traffic artery, and out of the strategic materials which the area can supply. Second is

*The countries are Colombia, Costa Rica, Cuba, the Dominican Republic, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, and Venezuela.

the fraternal bond which has long existed between the United States and Latin America as a whole since most of these nations were born, as was the United States, out of successful rebellion against a European king and, to a large extent, derive their political ideals of democracy and individual liberty from those of the American and French revolutions. Third is the economic tie which, although somewhat unevenly distributed among the several nations, is now made up of approximately \$5 billion of United States direct private investment and more than \$5 billion of annual trade. Finally, there is the diplomatic element which, beyond the goal of seeking to maintain cordial relations with these countries, takes into account the fact that, in this age of multilateral diplomacy, the nations of the Caribbean have a significant number of voices and votes in international forums such as the United Nations and, with the exception of Cuba, the Organization of American States.

These concerns give rise to a related set of United States policy objectives which can be summarized as follows: (1) to deny to outside powers a military foothold in this hemisphere, (2) to promote stable and progressive democratic governments and viable economies in the area, (3) to protect United States investments and foster mutually beneficial trade, and (4) to seek among these nations concerted diplomatic support for United States proposals and actions in the field of international affairs.

These objectives, over the years, have provided the broad framework within which specific United States policies and programs toward the Caribbean have been and continue to be developed. Viewed in this light, the changes which have taken place from time to time in United States policies can be seen more clearly as responses to particular situations involving current threats to one or more of these basic objectives rather than as shifts in the fundamental orientation of the United States toward this area. Thus the Monroe Doctrine in its day and the Alliance for Progress at the present time reflect both the constant nature of the United States interest as well as the changing nature of the threats to that interest which have arisen at different times in this part of the world.

The Military Assistance Program fits this pattern. Although the Program began, in a formal sense, with legislation enacted in 1950, it had two forerunners which deserve mention, partly as a matter of historical interest and partly because they tend to demonstrate how, even in earlier days, military assistance was used as an instrument of foreign policy to promote fundamental United States objectives.

The first of these programs developed out of the series of military actions which the United States undertook in the Caribbean in the early years of this century. After bringing about some measure of peace, political stability, and financial solvency under the watchful eye of the

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United States Army in the case of Cuba and of the United States Marines in the cases of Haiti, the Dominican Republic, and Nicaragua, the United States sought in each of these countries to leave these improvements in the local situation behind as a permanent legacy. Since one of the conditions which had led to United States military involvement had been the anarchy resulting from the activities of armed groups led by opposing *caudillos*, the United States attempted in each of these countries, through the provision of military equipment and training, to build up national armed forces capable of preserving internal peace and of insuring orderly constitutional political processes. The goal of this military assistance program was to enable these nations to manage their own affairs and to place them on the road to permanent political stability by helping them to develop a necessary part of the political infrastructure of constitutional government, namely, a professionally competent and politically responsible national military establishment.

As matters turned out, and as some critics of United States policies never fail to note, this effort was successful only to a limited extent. Soon after the United States relinquished effective control, the military forces which the United States had helped to create were in each case utilized as springboards to political power by local leaders.

It is, of course, easy with the advantage of hindsight to show that, given the state of political development within these four nations, United States efforts to provide stability through the creation of well-trained and -equipped national forces were not likely to succeed. Nevertheless, it is difficult, even now, to blame the high purpose which led the United States to make the attempt. In any event, it seems evident that these early military assistance programs represent a clear expression of the long-term United States political interest in the Caribbean and, specifically, of the objective of promoting stable governments and viable economies.

II

With the exception of the training by United States Marine officers of the Guardia Nacional of Nicaragua in the late 1920's, no military assistance of any significance was provided in the Caribbean area by the United States from about the time of World War I until the beginning of World War II. This was the period when United States military commitments in the area were being systematically liquidated and the Good Neighbor policy was gradually evolving. These developments were a reflection in part of a period of United States isolationism, but perhaps more importantly of the fact that no serious threats to fundamental United States interests arose in these years, and certainly none for

which a program of military assistance would have been either appropriate or useful.

Shortly after the outbreak of World War II, however, another forerunner of present-day military assistance was undertaken. By 1940, when Hitler's armies had all but conquered western Europe, the threat of the war spreading to this hemisphere was widely felt to be a real one. United States defense plans called for the use of certain bases and facilities in Latin America and envisaged the military cooperation of the American republics, particularly in providing access to these facilities and in assisting, within the limits of their respective capacities, in their own defense.

Although hemispheric solidarity had been the theme of a number of inter-American meetings in the 1930's, the United States encountered difficulties in reaching adequate military agreements with some of these countries. One of the principal stumbling blocks appeared to be the influence which military advisers from Axis countries exercised over local armed forces and, through them, over their governments. The roots of the problem were quite deep. Until World War II the pervasive military influence in Latin America as a whole had been European, and in some cases notably in South America, it involved extensive military representation. This influence was also present in the Caribbean. For example, an Italian air mission was operating in Venezuela; German officers taught in Colombia's military schools; a Frenchman served as director of the military aviation school in Guatemala. Thus when the United States sought to establish close military relations under the urgency of wartime conditions it was confronted, among other obstacles, with the fact that important segments of the military forces in several Latin American countries had been indoctrinated by European military advisers, were dependent upon European sources for armaments, and, perhaps of equal importance, were reluctant to cut themselves off from association with their long-time benefactors.

To deal with this situation, the United States undertook to supply United States armaments, initially under Lend-Lease arrangements, as well as United States military advisers to a number of Latin American countries. It was, in short, a program of military assistance designed not only to obtain the military cooperation of the countries involved but also to deny to outside powers a military foothold in this hemisphere and, indeed, to remove one which had already developed to a significant degree.

Approximately \$68 million worth of military equipment, chiefly aircraft and naval vessels, but including some tanks, armored cars, and trucks, was furnished to the countries of the Caribbean region under this program. About 60 per cent went to Mexico where much of it was

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used to equip an air squadron later sent to the Philippines for use in the Pacific war. The next largest share was the 11 per cent sent to Colombia, with the remainder being distributed in lesser amounts among the other countries.

After the war a limited amount of military assistance continued to be provided to the Caribbean area under the provisions of the Surplus Property acts of 1920 and 1944. By 1949, however, United States surplus stocks were exhausted and Latin American countries turned once more to Europe for armaments. This trend, which continued through most of the decade of the 1950's, was a result of restrictive United States policies on armament sales, of the improved financial strength of many of these countries as a result of war-time earnings and of the abundance of low-priced military surpluses in Europe. In all, it is estimated that Latin American military purchases from European countries during this period probably totaled \$400 million. How much of this amount could be said to represent purchases by Caribbean countries is uncertain, but the presence today of significant amounts of European weapons, ammunition, and equipment in the military inventories of these countries suggests that they shared in this traffic.

III

During the years immediately following World War II, the United States saw no important threat to its interests in Latin America and, in any case, was preoccupied with events elsewhere in the world. This was the period of the Marshall Plan, of the Berlin Airlift, and of the discovery by the United States that the Western World was engaged in a cold war with the Sino-Soviet bloc. Not until the outbreak of the Korean War, however, did it become clear that Communist expansionism involved a willingness to engage in direct armed conflict. Along with this realization came the shocking possibility that the hostilities in Korea might turn out to be the beginning of World War III. It was under the stimulus of the Korean conflict and in accordance with the provisions of the Rio Treaty of 1947 that the United States called for a Meeting of Consultation of Ministers of Foreign Affairs of the Organization of American States. The meeting resulted in a resolution recommending that all American republics (a) maintain their armed forces on the alert for collective defense of the continent and (b) cooperate in military matters to combat aggression against any of them.

In order to make this policy effective in a military sense and because most countries in Latin America had neither the finances nor the facilities to equip and train professionally competent forces, a United States program of grant military assistance was initiated in 1950. Originally,

the program was based on the concept that designated Latin American military units, with United States training and equipment, could be developed into forces capable of performing hemispheric defense missions. In the Caribbean region, seven countries eventually contracted under bilateral military assistance agreements to designate a limited number of their existing forces for hemispheric defense missions. These were Cuba, Colombia, the Dominican Republic, Nicaragua, Honduras, Haiti, and Guatemala. Specifically, the agreements called for each state to accept responsibility for maximizing its contribution to (1) the internal security of its own territory, (2) the defense of its own territory, including coastal waters and air lanes, and, (3) allied defense efforts, including participation in combined operations within the hemisphere as well as support of collective actions in other theaters by forces not required for hemispheric security. The United States agreed to provide military assistance for the designated units subject to annual Congressional appropriations.

From this beginning in 1950 through June of 1965 approximately \$130 million has been programmed in grant military aid to the Caribbean region. Approximately half of this amount has gone to one country, Colombia, with the next largest share being the 11 per cent allocated to the Dominican Republic. Cuba, by the time support was cut off in fiscal year 1960, had received about \$10 million, or slightly less than 8 per cent. For the remaining countries the amounts have been smaller, the average total over the 15-year period being about \$4 million.

In terms of categories of assistance, the largest expenditure has been for training, which has accounted for about 22 per cent of the program. Aircraft accounts for 17 per cent, vehicles and weapons another 17 per cent, and ships and communications equipment each represent about 7 per cent of the total. The balance of the expenditures are accounted for by several miscellaneous categories such as repair and rehabilitation of equipment, packing, crating, handling, and transportation charges, and the like. The aircraft have been mostly transports; the ground equipment has generally consisted of trucks, jeeps, and light infantry weapons, such as rifles, carbines, and mortars; and the ships have been principally patrol vessels.

The modest amounts involved reflect a number of factors. In the first place, the armed forces of most of the Caribbean countries are quite small. In fact, three of them, Costa Rica, Nicaragua, and Panama, rely on security forces rather than conventional armies for national defense. In the second place, the geographic proximity of this area which enhances its strategic importance to the United States also makes it somewhat easier to defend with the assistance of the United States forces, particularly if overflight and base rights are made available. A third

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factor is that the changes which have taken place in the nature of modern warfare in this age of nuclear weapons and ballistic missiles have so increased the cost and sophistication of some weapons systems that small countries are, in effect, priced out of the market. All these factors combined have led to a shift in the concept of collective defense of the hemisphere. Today there is general recognition that the United States has the primary responsibility for the defense of the Caribbean against external attack and that the military roles of the nations in this area are the defense of their maritime areas and the maintenance of internal security against threats of Communist-led violence and subversion.

IV

The internal security role of Latin American armed forces has received increasing emphasis in recent years. About 1960, in the wake of the Castro-Communist take-over in Cuba, the United States received a series of urgent requests for help from Latin American countries facing actual or anticipated outbreaks of violence. In response, the United States began furnishing equipment and training specifically identified as intended for internal security. At the present time, about 70 per cent of the military assistance furnished to countries of the Caribbean region is earmarked for this purpose. Special training courses, emphasizing intelligence collection and reporting, counter guerrilla techniques, and riot control, have been provided as part of this activity.

There is a related development of considerable importance. In recognition of the fact that the internal security problem in the area arises out of mounting social tensions, United States policy since 1962 has consciously used military assistance to promote social and economic development. The intent of this policy is to encourage and help the military forces of these countries to improve their relationships with their own citizenry, to utilize military manpower not otherwise productively employed, and to enlist some of the skills and equipment of the military forces in furthering the goals of the Alliance for Progress. This effort has given rise to a number of civic action programs by the armed forces of all of these countries. For example, all now have some form of medical civic action under which military teams provide medical treatment to remote rural areas. On-the-job training by the military of civilians is being increased and many of the countries are using their armies to provide literacy, citizenship, and vocational training to conscripts.

About 7 per cent of the Military Assistance Program in the Caribbean area is currently allocated to equipment intended for civic action programs. While this may appear to be a small share of the total effort for so important a task, the fact is that civic action programs normally

do not require large amounts of equipment. The essential ingredient is not material but rather the development of cooperative attitudes between the military and the civilian community, a result which tends to come about through productive personal relationships, as among troops and villagers on simple work projects. Moreover, the share of the total Program which contributes to civic action is actually much larger when account is taken of such general purpose equipment as transport aircraft, trucks, and communications equipment. Although not specifically identified as civic action equipment, much of it is both available and actually used in connection with civic action projects.

No category of military assistance to the Caribbean region has received more emphasis or funds than that of training. As has been pointed out earlier, 22 per cent of the total Program has been devoted to this purpose. As of June 1964, more than 12,000 military personnel from the countries in this area had received training in United States military schools, with 4,000 attending courses in the United States and the remaining 8,000 attending schools at United States military installations in the Canal Zone. In addition, in-country assistance is provided by sending mobile training teams to give on-the-spot help with specific training problems, while advice and assistance on a continuing basis are provided by United States military missions resident in each country, with the exceptions of Cuba and Haiti.

One of the goals of the training program, besides the obvious one of imparting specific military skills, is to foster the growth of a spirit of professionalism among the armed forces of these nations and to encourage them to become non-political military establishments responsive to civilian government control. In the nature of the case, this is not something which can be achieved by direct training methods. Nevertheless, training courses, particularly those conducted in the continental United States, provide opportunities for visiting military officers to observe and to acquire an understanding of the role of military forces in a constitutional democracy like the United States. While no thoughtful person supposes that the pattern of civil and military relationships in the United States is directly applicable to the markedly different political environment of the Caribbean republics, it is hoped that one effect of these training courses will be to enhance the desire of the military of these countries to move out of the arena of domestic politics.

V

There have been, from time to time, a number of critical questions asked about what might be called the side effects of United States military assistance. The most frequent question is whether these programs

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do not, in fact, actually retard the growth of constitutional democratic governments. The argument is sometimes made that by increasing the professional skill of the armed forces and providing them with better equipment and weapons the political power of military leaders is enhanced and the likelihood of military coups and subsequent dictatorships is thereby increased.

There are a number of reasons why this argument is not valid. In the first place, there is the historical record. In the past 35 years there have been nearly 40 unscheduled or illegal changes of government, not counting assassinations of heads of government, among the 12 nations of this area. Only Mexico had no such experience during this period. Such changes have occurred once in Costa Rica; twice in Colombia and Nicaragua; three times in Haiti, Honduras, and Panama; four times in Venezuela; five times in Cuba, the Dominican Republic, and El Salvador; and six times in Guatemala. Since this record of coups extends far beyond the beginning of the Military Assistance Program and the frequency with which they have occurred in some countries and not in others bears no relation to the size or type of United States military assistance, it is at least doubtful that military assistance is a significant factor. Indeed, there are good reasons to look elsewhere for the causes of this phenomenon. As one prominent Caribbean political figure recently explained to an American television audience: when the American people want to change the administration of their government because they do not like its policies they do it by holding an election; in the Caribbean region, on the other hand, the customary way to change government policies is by a revolution. The reasons for this pattern of political behavior are deeply embedded in the culture and history of the area, but one of the principal reasons for the important role played by the military is the fact that, in those countries where they appear to be dominant, there has not yet developed both a workable and popularly accepted basis among civilian political groups for the orderly transfer of power from one government to another. Indeed, political factions defeated in an election tend to accept the mandate of the polls only so long as the elected government can command sufficient military power to keep opposition groups from overthrowing it by force. In this kind of political setting the key role played by military establishments in domestic politics is less a cause than a result of the failure of these nations to develop into constitutional democracies.

Even if this were not so, United States military assistance represents, on the average, only about 2 per cent of the amounts these countries spend on their military forces through their own defense budgets. When, along with this fact, the relatively minor nature of military action characteristic of Caribbean revolutions is considered, it is obvious that each

of these countries itself provides all the resources its military forces need to play a crucial part in domestic politics. To put it another way, United States military assistance has no direct effect on military coups because the simple fact is that weapons systems and even professional military skills are not the determining factors.

To point these things out is, by no means, to express approval of them or to suggest that a less political role for the armed forces of these nations is not to be desired. As a matter of fact, the whole thrust of United States military assistance, through training programs, through emphasis on the missions of internal security and civic action, is in the direction of encouraging the creation of professional forces dedicated to playing a proper role in constitutional democratic governments. It should be recognized, however, that this is a most difficult goal to attain, for even a military establishment so dedicated must come to terms with its environment, and as yet the countries in the Caribbean region which can be said to have constitutional democratic governments within which the military can play a proper non-political role are few indeed. Nevertheless, the United States Military Assistance Program, to the extent possible and in ways already described, seeks to influence the military establishments of these countries to move toward that goal. Because the basic causes of political instability in the Caribbean region lie more in the civilian community than in the military establishments, the occurrence of a military coup in one of these countries should not be regarded as the fault of the Military Assistance Program. On the other hand, in all fairness, it can be suggested that, for much the same reasons, where military establishments have gradually come to play a lesser role in domestic politics something besides the influence of United States military assistance has probably been at work. In short, this is a field in which United States military assistance policies do not and probably cannot play any major role.

A second question often raised about United States military assistance programs is whether they encourage military expenditures by the recipient countries at the expense of economic progress. Some perspective can be obtained on this question by noting first that military expenditures by the Caribbean countries, with one or two exceptions, represent only 10 per cent or less of their national budgets. In addition, based on 1964 figures, it is estimated that only the Dominican Republic devotes more than 3 per cent of its GNP to its military forces.

These figures do not suggest that the military establishments in these countries are a heavy burden on local resources. Moreover, since economic progress can take place only under conditions of reasonable political stability and some measure of public order, the military must be counted to some extent as an economic asset by reason of the important

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contributions which they can and do make to internal security and social improvement. On these grounds it seems reasonable to conclude that military expenditures are not a significant obstacle to economic progress in this region.

A further point can be made. Not only are all United States military assistance programs undertaken only at the request of the government involved, but within the United States government it is a matter of law that the Secretary of State and not the Secretary of Defense, or the United States armed services, determines whether there shall be a military assistance program and how large it shall be for a given country. Very careful consideration is given, therefore, particularly within the United States government to the political and economic consequences, as well as the military need, of each program. By so doing, military assistance can be and is fully and continually coordinated with all other United States activities, and particularly with those under the Alliance for Progress.

VI

To sum up, the Military Assistance Program is an instrument of United States foreign policy. As with other instruments of policy, it has been called upon to seek different objectives at different times as new situations and new challenges to fundamental United States interests have developed. In terms of the things it has sought to accomplish its record is heartening. Although some countries in the area occasionally purchase military equipment elsewhere in the world, there is today, with the exception of Cuba which is a special case, no important military influence by outside powers in any of the Caribbean republics. With reference to internal security the potential ability of each of these countries to deal with their local problems, so far as their military forces are concerned, has been strengthened appreciably, and the contribution of the military to social and economic development through civic action programs has steadily increased. Only with regard to reducing the role of the military in domestic politics has there been, in some of the countries, little evidence of progress, but this is a field where the writ of United States military assistance policy simply does not run.

Given the complexity of the tasks which have been assigned to it and the very limited sums of money within which it has had to operate, there seems to be little question but that the achievements of the United States Military Assistance Program in the Caribbean area have been, on the whole, quite good.



William Sanders: THE CONFERENCE SYSTEM IN THE CARIBBEAN

THE SUBJECT which I am to discuss is the "Conference System in the Caribbean." Since the topic lends itself to varying interpretations I shall begin with an explanation of my understanding of its meaning and scope.

I. Terms of Reference

I take it that I am not to discuss the techniques and methods of conference management; I assume that the term "conference system" is a synonym for the complex of meetings, institutions, and procedures which we today have come to know as integral parts of multilateral or parliamentary diplomacy. If I am correct in this, the prototype of the "Conference System in the Caribbean" is the United Nations on a world scale, and the Organization of American States (OAS) on a regional scale.

With this assumption as to my terms of reference, I shall attempt first, by way of introduction, to describe the methods and institutions of this modern diplomacy as exemplified by the OAS. The OAS is both a component part of the conference system of the Caribbean and the overall framework within which the most successful use of the institutions and methods of the system is being made within the subregion.

We are today participants in a revolution in international relations. We recognize, more clearly and more widely every day, the imperative necessity for redefining the concepts of "vital self-interest" and "vital national interest," in the light of contemporary realities.

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The multiplication of states, the rise of exaggerated nationalism, and the cold war are, paradoxically, accompanied by a drawing together of nations in integrated groups with a trend away from traditional patterns of national sovereignty. This reflects the increasing interdependence of nations. This interdependence—I have purposely resorted to a stereotype—whose complexity and importance grow from day to day, demands the employment of techniques and the use of international institutions that respond to this evolving reality.

The nations have increasingly found in the so-called “multilateral diplomacy” or “parliamentary diplomacy” a suitable and indeed indispensable tool for dealing with the needs created by the nature of international relations in our time. Its instruments include meetings and conferences that are held periodically or on special occasions. It includes also institutions and organs of a permanent nature, councils, commissions and committees, and technical and administrative secretariats made up of international officials and experts. It also includes round-table meetings, seminars, and symposia, in which information and ideas are exchanged on an enormous variety of subjects.

II. The OAS Background of the Caribbean Conference System

In the OAS we see multilateral diplomacy as it is practiced within the American region. The longevity of the component elements of the regional system is attested by the fact that their ideological and institutional beginnings were laid in the series of five Hispanic-American congresses between 1826 and 1865. The then existing independent countries of the Caribbean were deeply involved in this effort. For example, at the first of the series, held in Panama by invitation of Simón Bolívar, representatives of Gran Colombia (today Colombia, Ecuador, Panama, and Venezuela), of Central America (today Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua), and of Mexico and Peru were in attendance; that is to say, nine of the eleven members of today's OAS that attended the Congress were from the Caribbean. While the treaties of confederation and union concluded at these congresses did not come into effect because of failure of ratification, the principles and institutions found in these instruments are faithfully reflected in the modern OAS.

The OAS of today began to take shape in 1890 at the first conference of the system held in Washington. There followed almost a half century, up to 1933, of slow development. This was the preconstitutional period. The institutions of the system were based upon resolutions of conferences, although treaties on a variety of subjects of technical convenience and on pacific settlement were concluded which depended on unilateral

or bilateral actions for their execution. There was an unwritten rule calling for unanimity on any voting on matters of importance. Collective action for the peace and security was conspicuous by its absence. The period from 1933 to 1947 saw a breakthrough on two crucial questions which permitted a rapid development of the system. The first was the acceptance of the principle of non-intervention and the other the principle and institution of consultation and collective action for the maintenance of peace and security. This period was followed in 1947 and 1948 by the conclusion of the Inter-American Treaty of Reciprocal Assistance and the Charter of the Organization. These instruments developed and consolidated the achievements of the previous more than half-century of development.

The Rio Treaty and the Charter are the "constitutional" instruments of the modern OAS. The OAS has been called an "omnicompetent" or "canopy" organization, meaning that it is comprehensive in the scope of the matters with which it deals, either for decision or for agreement on policy for the maintenance of peace and security and cooperation for human welfare.

The principal institutions are:

The Inter-American Conference. It is the supreme organ of the Organization and "decides the general action and policy of the Organization, determines the structures and functions of its organs and has the authority to consider any matters relating to friendly relations among the American States." The Conference has three modalities: it is supposed to convene every five years, it can meet in special circumstances as a special Inter-American Conference, and it can meet for the specific purpose of considering amendments to the Charter. The Special Conference (the second in the series) held last month in Rio de Janeiro decided that the regular Conference should be held annually, and that a Charter amendment to this effect should be considered by the Conference, meeting in its third capacity, to be held in Buenos Aires in July of 1966.

The Meeting of Consultation. It has two modalities: it meets as the organ of consultation under the Rio Treaty on matters affecting the peace and security, and it meets to consider problems of an urgent nature and of common interest.

The Council of the Organization. It is the permanent deliberative or governmental body of the system. It has two modalities: it serves provisionally as the Organ of Consultation under the Rio Treaty and has a wide variety of functions as a permanent forum for consideration of matters affecting the Organization and its activities.

The Council has three councils possessing technical autonomy in the economic and social, the cultural, and the legal fields. The Charter

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Amendment Conference of Buenos Aires in July next will review the status of the four councils on the bases of a conclusion of the recent Conference of Rio Janeiro, which in part calls for the granting of autonomy to the Economic and Social and the Cultural councils under the direct authority of the proposed annual Inter-American Conference.

The Pan American Union. Under the Charter it is the central and permanent organ of the Organization and its General Secretariat.

The specialized conferences, which meet to deal with special technical matters or to develop specific aspects of inter-American cooperation; and the specialized organizations, which are intergovernmental organizations established by multilateral agreements having specific functions with respect to technical matter of common interest. There are six of the latter.

In addition to the above-mentioned principal organs there are a variety of special purpose agencies, such as the Inter-American Defense Board, the Commission on Human Rights, the Consultative Committee on Security (having to do with Communist subversive activities), and the Inter-American Peace Committee. There are also, as I indicated previously, round-table meetings, seminars, symposia, and other types of meetings to consider specialized matters in the cultural, scientific, economic, and technological areas.

The foregoing is, then, the matrix within which subregionalism in the Caribbean is developing, both as it takes form in the integration movement in Central America and the much less defined shape of past and present cooperation through the conference system within the subregion as a whole.

The OAS has been instrumental in bringing about a climate of tranquility in an important part of that turbulent area, which has permitted and fostered the practices of conference diplomacy in its most advanced forms. I refer to the economic integration of Central America.

The Organ of Consultation under the Rio Treaty, either in the form of the Meeting of Consultation of Ministers of Foreign Affairs or the Council acting provisionally in that capacity, has been convened 13 times, all of them to deal with conflicts or situations affecting the peace and security in the Caribbean. These cases have included the explosive situations arising from the collapse of the Trujillo dictatorship and the emergence of the Castro regime. Of the 4 instances in which the Meeting of Consultation of Foreign Ministers has met in its other capacity, that is, to consider urgent problems of common interest, 3 had to do with the Caribbean. The last such instance is the Tenth Meeting called upon to deal with the very difficult Dominican situation. Similarly, 17 of the 18 cases in which the Inter-American Peace Committee has acted had their locus in the region.

The settlement of the generations-old territorial dispute between Honduras and Nicaragua is a good example of a way in which the OAS has assisted in creating conditions favorable to the use of the conference system in the region. The magnitude of the question can be seen from the fact that the territory in dispute is almost as large as Puerto Rico and somewhat larger than the two states of Rhode Island and Delaware together.

In another field, that of economic and social development and specifically of integration, the Inter-American Economic and Social Council, in launching the Alliance for Progress at Punta del Este in 1961, stated as one of the goals of the Alliance the acceleration of the integration of Latin America. It recognized that this process has already begun "through the General Treaty of Economic Integration of Central America and, in other countries, through the Latin American Free Trade Association." The five Central American countries recently submitted together to the OAS for review their national development plans prepared in accordance with Alliance for Progress procedures. The Council of Jurists is actively considering the legal and institutional aspects of economic integration in Central America. These are a few examples of the interrelationship between regional and subregional conference diplomacy.

III. Conference Diplomacy in the Caribbean

It is interesting to note that in 1948, at the Bogotá Conference, the American republics took express notice of the possibility that a new political entity might be formed in the Americas as a result of the union of several of its member states. Article 3 of the Charter of the OAS states that "any new political entity that arises from the union of several member states and that, as such, ratifies the present Charter, shall become a member of the Organization." This provision had its origin in a motion presented by Ambassador Héctor David Castro of El Salvador, who at that time gave the following reason for his proposal:

The Central American republics formed a federation for two decades of their history, and the Constitutions of these republics contain an article authorizing their governments to try to re-establish the old Central American Union. . . . The purpose of this proposal . . . is that it be recognized—whether in Central America or in any other area of the Americas where several states may decide to unite their political destinies, either in a unitary government, or in a confederated or federal government—that that new political entity has a right to join the Organization of American States.

Most of the delegations at the Bogotá Conference interpreted the

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terms "federation" and "confederation" as meaning that the union would be so total that a new state would emerge, which would replace the former states. Therefore, another sentence was added to the Salvadorian proposal, stating that "the entry of the new political entity into the Organization shall result in the loss of membership of each one of the states which constitute it."

Article 3 of the OAS Charter thus embodies an aspiration that looks to a return to a relationship that existed in the region at the time the five states were for some 15 years "the United Provinces of Central America," under a federal pact concluded at the time the Captaincy General of Guatemala became independent. The year 1951 marks the beginning of an effort, in the form of modern conference diplomacy, toward this objective, on two fronts: Central American economic integration and the Organization of Central American States.

Central American Economic Integration

At the Fourth Meeting of the United Nations Committee for Latin America, held in June of that year, representatives of the five Central American states stated their intention to integrate their economies. In August 1952, at the First Meeting of Ministers of Economy of Central America, held at Tegucigalpa, the "Committee on Economic Cooperation of the Central American Isthmus" was created, composed of the Ministers of Economy of the region. This marked the start of economic integration in the region, at approximately the same time that the so-called "Charter of San Salvador" was signed, creating the Organization of Central American States.

The creation of the Committee on Economic Cooperation was followed by a stage of preparatory studies, which served as a basis for the first steps in the process of economic integration. These studies were directed toward the formation of a free trade zone and the preparation of a uniform external tariff, and such key matters as transportation, electric power, natural resources, and basic products were studied. The improvement of public administration was undertaken, with the assistance of the School of Public Administration of Central America, established in 1954. For its part, the Central American Institute of Industrial Research and Technology, established in 1955, performed various technical functions in connection with the study and execution of industrial projects and related subjects. Various bilateral treaties intended to facilitate free trade were signed; this was followed in due course, in June 1958, by the Multilateral Treaty of Central American Free Trade and Economic Integration. This treaty sought to free trade in the products of the five countries specified in an appended list, and which came to be a kind of common denominator of the bilateral agreements. The following year, an

agreement on equalization of duties on imports was signed, which provided for the adoption of a common customs policy and a uniform customs tariff for imports in accordance with the needs of the economic integration and development of Central America. The equalization of duties was to be achieved within five years from the date of the entering into force of the agreement. Several other treaties were also signed to facilitate the carrying out of infrastructure projects, especially with regard to highway transportation.

The success of the agreements led the governments of Guatemala, El Salvador, and Honduras in February of 1960 to sign a Treaty of Economic Association, by which free trade came to be the general rule, and in December of the same year the basic document on the subject was signed at Managua: the General Treaty for Central American Economic Integration. The Treaty established free trade in the products originating in the signatory countries with the exception of certain specified items which would be incorporated in the free list in five years.

The process of economic integration has continued and has been expanded by protocols and agreements, arrived at through the use of various conference techniques. The Central American countries have also utilized practically the entire arsenal of the institutions of conference diplomacy. Thus, there are permanent organs, such as the Central American Economic Council, of the Ministers of Economy of the five republics, in charge of the planning, coordination, and execution of economic programs, and which holds regular meetings every three months; and the Executive Council, composed of a titular and an alternate member designated by each of the five governments, which meets every month. There is a Permanent Secretariat, with headquarters in Guatemala City and headed by a Secretary General, whose functions are, among others, to watch over the application of the treaties and agreements and the implementation of the resolutions of the two Councils. The Central American Bank for Economic Integration, with headquarters in Tegucigalpa, whose Board of Governors is made up of the Ministers of Economy and the Presidents of the Central Banks of the signatory countries of the Treaty, is the financing agency of the program. Other agencies are the School of Public Administration of Central America, the Central American Monetary Council, and several more.

As indicated previously, the national development plans under the Alliance for Progress of the five countries have been submitted together to the OAS for review. Various parts of the development plans, particularly transportation, telecommunications, agricultural production, highways, have been coordinated in these plans within the framework of the integration of the region. A Joint Programming Mission for Central America (OAS-IADB-ECLA) has rendered continuous advice and technical

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assistance, working in conjunction with the Permanent Secretariat of the General Treaty for Central American Economic Integration, the Central American Bank of Economic Integration, and national planning offices. Here we see again Central American conference diplomacy operating within the wider framework of the inter-American system and the United Nations.

Since 1960, the five nations have eliminated more than 95 per cent of the customs duties on products originating in the region and have established common customs tariffs on nearly 98 per cent of the products from outside the region included in the regional customs classifications.

The positive results achieved in so short a span of time may be said to be the outcome of an intensive use of conference diplomacy within the region at two crucial levels, the technical and the political. After preparatory work by experts at meetings, conferences, organs, and standing bodies, rapid decisions were taken at a high political level through the same techniques, by cabinet ministers. The latter greatly facilitated prompt action by the executives, and by the congresses when required.

As the process of economic integration continues, the legal and institutional aspects of the process have assumed growing importance and urgency; new needs have appeared requiring adaptations and innovations in existing legal concepts and practices; the requirements of a new law have appeared which transcend traditional municipal and international law: the law of the integrated community of nations. A key issue in this respect relates to the structures, functions, and powers of the Central American integration agencies as decision-making bodies, and their relationship to purely national governmental bodies. In brief, economic integration is outstripping the political and legal forms. These questions are now being given careful study in Central America and by the appropriate OAS institutions.

The Organization of Central American States

The Organization of Central American States was established in 1951, when the Ministers of Foreign Affairs of Guatemala, Honduras, El Salvador, Nicaragua, and Costa Rica signed the "Charter of San Salvador." In December 1962, in Panama City, a new Charter of ODECA, was signed, which entered into force on May 30 of this year with the deposit of Costa Rica's instrument of ratification. The purpose of the Organization is "to give the five states a more effective instrument by establishing organs that will assure their economic and social progress, eliminate the barriers that divide them, constantly improve the living conditions of their people, guarantee the stability and expansion of industry, and strengthen Central American solidarity."

In the new Charter, the five republics expressly state that they are

"an economic-political community that seeks the integration of Central America." The agencies of the General Treaty for Economic Integration will be incorporated into the Organization in the future. The Organization has various types of instruments, characterized by their flexibility. Its supreme organ is the Meeting of Heads of State, and its main organ the Conference of Ministers of Foreign Affairs. The latter meets whenever three Ministers deem it necessary and its decisions must be made unanimously. It has permanent organs, such as the Executive Council, which is the legal representative of the Organization, made up of the Ministers of Foreign Affairs or their representatives specially accredited for the purpose, with a schedule of regular weekly meetings and special meetings when convoked by its Chairman. The Executive Council is the organ that directs and coordinates the policy of the Organization, and it has its own secretariat. The Legislative Council, a permanent deliberative organ, composed of representatives of the legislative powers of the member States, acts as adviser and consultative organ in legislative matters. Other permanent organs are the Central American Court of Justice, composed of the presidents of the judicial powers, which meets on its own initiative or on convocation by the Executive Council; the Central American Economic Council, composed of the Ministers of Economy, which is in charge of planning, coordination, and execution of economic integration; the Cultural and Educational Council, made up of the Ministers of Education or their representatives, whose principal functions are the promotion of educational, scientific, and cultural exchange and coordination of efforts to obtain uniformity in the educational systems. The Defense Council, made up of the Ministers of Defense, is a consultative and advisory organ.

The Charter permits any of the members to propose, through the Executive Council, a meeting of the organs or Ministers of other branches to deal with matters of Central American interest, thus giving its instruments a full margin of flexibility.

The Organization of Central American States clearly reflects progress toward community building in the region. Nevertheless, the direction taken by the movement is not toward classical "federation." Thus, Article 24 of the Charter of ODECA states that the "operation of the Organization shall not interfere with the internal regime of the states and none of the provisions of the present Charter shall affect the respect for and compliance with the constitutional forms of each of them, nor may it be interpreted in such a way as to impair the rights and obligations of the Central American States as members of the United Nations and of the Organization of American States, nor the particular positions that any of them may have assumed by means of specific reservations in treaties or conventions in force."

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A draft Charter of the Central American community was recently submitted by the Minister of Foreign Affairs of Guatemala for consideration by the Foreign Ministers of the five countries. It contains far-reaching proposals for further integration in Central America. For example the draft expressly provides: that persons who are natives of any of the member states are considered as nationals in all of them; that a Central American Congress made up of five deputies for each member state shall be created, as well as a permanent Executive Council, composed of one representative designated by the executive power of each state; and a Central American Court of Justice, made up of one magistrate designated by the Supreme Court of each nation. A special financial system is provided for, with funds coming from a tax on the imports each member state makes from nations outside the Community. Other articles provide for unification of diplomatic and consular representation, but leaves the states at liberty to be represented individually when they deem this appropriate, and for coordinated collective action against aggressions through the use of combat units of Central American Armed Forces and Public Security Forces. The draft departs from the idea of "federation" and, in contrast, adopts the concept of "community."

IV. Other Uses of the Conference Diplomacy in the Caribbean

The Inter-American Union of the Caribbean

A retrospective glance at conference diplomacy in the Caribbean area reveals other and broader aspects of its development. For example, we find that there were in the region from 1939 to 1941 two institutions through which an endeavor was made to promote regional cooperation and unity. I refer to the three Inter-American Meetings of the Caribbean and their permanent organ, the Inter-American Union of the Caribbean.

The first Inter-American Meeting of the Caribbean was held at the initiative of the Pan American Columbian Society, which has its headquarters in Havana. In 1939 the Society entrusted a group with the preliminary work of the Meeting and sought to interest governments and public and private organizations in the objectives of the Meeting. These were to identify, clarify, restore, and make known the cultural values and common interests of the region, to promote "the formation of a collective awareness, the basis and guarantee of a mutually beneficial cooperative effort."

The Meeting was held in Havana in October 1939, with the participation of governmental delegations and representatives of organizations of Colombia, Panama, Costa Rica, El Salvador, Cuba, Dominican Republic, Haiti, Mexico, and the United States. The focus of the discussions was positive: to seek out points of union, avoiding subjects that might stir up differences. The Second Meeting was held in Santo Domingo in 1940

and was attended by representatives of the countries that had participated in the first, plus Guatemala, Honduras, Nicaragua, and Venezuela. The matters considered had to do with ethnography and history, intellectual cooperation, public health, tourism, and other topics of common interest. It was at this meeting that the Inter-American Union of the Caribbean was officially organized, made up of the 13 countries attending. The Third Meeting, the last held, took place in Port-au-Prince in April 1941, with the participation of representatives from the 13 republics that composed the Union. Its committees continued to make progress in the study of cultural, educational, and historical matters, and in affairs related to intellectual cooperation, tourism, and other fields.

Although the Japanese attack on Pearl Harbor brought these meetings to an end, some of the projects they initiated were completed, such as the society of archivists of the Caribbean.

The Caribbean Commission and the Caribbean Organization

Another Caribbean cooperative effort began in 1946, when 15 non-independent territories met at an international conference, with the right to speak in their own name. This was the Second Session of the West Indies Conference, held in St. Thomas, Virgin Islands, under the sponsorship of the Caribbean Commission and with the participation of representatives of United States, France, the Netherlands, the United Kingdom, and 15 Caribbean areas administered by those four powers. The discussions and the work of the delegates from the non-self-governing areas were not controlled by the metropolitan countries. What is more, of the 29 delegates attending 23 were natives of Caribbean territories and 16 of them represented local legislatures.

The Caribbean Commission goes back to World War II. In 1942, in an effort to improve the economic and social conditions that existed in the dependent territories of the region and that contained the seeds of much social trouble, the so-called "Anglo-American Caribbean Commission" was established. It was to concern itself with matters related to labor, agriculture, housing, health, education, social welfare, financial matters, and related questions. It was expressly established that in its recommendations the Commission should take into account the advantages of close economic and social cooperation throughout the Caribbean region. At the end of 1945, France and the Netherlands accepted an invitation to become members of the Commission. It thus became a comprehensive regional consultative organ, with representatives of the peoples of the dependent territories of the Caribbean and of the metropolitan powers. The Commission met twice a year and had a Central Secretariat in Port of Spain, Trinidad. The Conference of the West Indies became an auxiliary instrument of the Commission, along with a Research Coun-

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cil. The Caribbean Commission maintained its structure until September 1961, when it was replaced by the Caribbean Organization.

This last organization was established by an agreement signed in Washington in 1960 by representatives of the United States, France, the Netherlands, and the United Kingdom, and entered into force on September 6, 1961. The first members of the Organization were France, for its Departments of French Guiana, Guadalupe, and Martinique; the Netherlands Antilles and Surinam; British Guiana and the West Indies Federation, composed of ten United Kingdom territories, including Barbados, Jamaica, Trinidad, Tobago, the Commonwealth of Puerto Rico, and the United States Virgin Islands. In May 1962 the British Virgin Islands joined the Organization, and in December of the same year the West Indies Federation was dissolved and consequently ceased to be a member.

The Caribbean Development Corporation

Although the Caribbean Organization will presumably cease to exist on December 31, 1965, interest is maintained in continuing its work in some form, perhaps through the use of more flexible techniques of cooperation in the economic, social, and cultural fields. There has been talk of creating a new organization in which the focus will be on technical rather than governmental participation, with a more direct involvement of the peoples of the areas in the work in terms of initiative and decision-making, and with greater participation of the private sector.

In this connection the government of Puerto Rico has shown an active interest in collaborating with the other peoples of the Caribbean for economic and social development purposes. A concrete indication of this interest is the Caribbean Development Corporation, created in June of this year. The Corporation has already held its first meeting, with participation of representatives of ten Caribbean countries. The Corporation is doing preparatory work for the establishment of a financial institution and for initiating various other projects, among which are those relating to fisheries, housing, and transportation, as well as the establishment of fellowships for technical training of residents of the Caribbean.

The West Indies Federation

A fourth example of trends in the multilateral diplomacy of the Caribbean area is the attempt to establish the West Indies Federation. The ten territories involved comprise a total area of more than 8,000 square miles and a population that was estimated in 1961 at more than 3 million.

In this case the conference system—in the form of intercolonial meetings and standing advisory, consultative, and experts bodies—was used

to prepare the ground for political union. This approach, called functional or, in the West Indies "government by round-robin," assumed that Union could be the end product of an initial stage of cooperation in the economic, technical, and cultural fields.

The above policy was stated by the British government as early as 1905, when it declared that the establishment of a federal government in the Caribbean was the ultimate objective of British policy, but that this eventual end should be attained by first promoting measures of administration, such as the holding of agricultural conferences, making uniform quarantine and customs regulations, and exchanging expert officials. This policy was followed until 1945 when the government suggested the convening of a conference to formulate proposals on federation. Such a conference was held in 1947. It established a representative Study Closer Assistance Committee to draft a constitution for consideration by the legislatures. This initiative did not interrupt the functional process, which was continued as the instruments of federation were being drafted.

The negotiations culminated in the Federation agreement concluded in February 1956, by representatives of the ten territories and ratified in August of the same year by Queen Elizabeth II. Under the agreement, the Federation would enjoy a large degree of internal autonomy, but the United Kingdom would control its foreign relations, its defense, and its financial stability until it attained dominion status. In 1961 the United Kingdom offered the Federation independence within the British Commonwealth, effective May 31, 1962, and subject to acceptance by the legislatures of the islands and a popular referendum in Jamaica. However, in September 1961, Jamaica, with more than half of the total population of the Federation, elected to withdraw from the Federation, and the government of the United Kingdom soon announced that it would grant that nation independence in 1962 and that it would sponsor its admission as a member of the British Commonwealth. On May 31, 1962, with the withdrawal of Trinidad and Tobago, which was preparing for its own independence, the Federation was dissolved. The remaining seven small colonies in the Windward and Leeward Islands and Barbados tentatively agreed on May 24, 1962, to form a federation of their own, but postponed action in 1963.

The failure of the effort to federate the British Caribbean territories offers rich material for reflection on the role of conference diplomacy, on its possibilities and its limitations for effective performance, having in mind the end objective, in this case, political union.

It is evident from this experience that conference diplomacy must have the conditions and attitudes which permit it to exert its effects, in order that it may in turn promote the creation of conditions and the state of

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mind for its exercise on a widening scale. In the West Indies conference diplomacy did not proceed beyond the rudimentary stage of study, advising and consultation. This may have been because its techniques are normally methods of foreign policy formulation and execution among independent states; they could not be used effectively by a seat of authority at a remote distance from the area to transform geographically fragmented colonies, with significant contrasts in economic resources and political maturity, into a nation in one generation. The environment for political union was far from favorable and the insipient forms of conference diplomacy which were used to achieve that highly ambitious objective were subjected to a test beyond their capacity to meet. The failure of other attempts to bring about federation among former colonies in other parts of the world since World War II reveals how different this objective can be.

V. Conclusion

It has been said that evolution is not a process that results from a pull from above but of a push from below. In any event, this may be accurately said of conference diplomacy, in the sense that it cannot evolve beyond the stage of simple cooperation to the acceptance of decision-making institutions, either of a supranational political or economic union or of an international community such as the OAS, in the absence of an overriding common interest. It is an instrument serving the will of the governments and of the people who resort to it; it operates to give effect in action, collective and individual, to the concept of common interest that prevails at any given state of community building, or in any given case in which it is tested.

In the West Indies effort to achieve federation and in the Central American integration movement, respectively, we see the use of conference diplomacy at its minimum and at its maximum potentialities. In the former there was missing an essential element necessary for successful performance that is present in the latter, and to which the OAS has contributed in substantial measure. This factor is the climate of solidarity, in which the existence of overriding common interests is recognized.

As indicated previously, the OAS has had a decisive role in the practice of conference diplomacy in the Caribbean in the last two decades. The regional system has had to mobilize its resources for the maintenance of peace and security in the area on 33 occasions in the 17 years since its institutions were given constitutional form at the conferences of Rio de Janeiro and Bogotá.

In so far as Central America is concerned, in removing causes of

friction the OAS has helped to create conditions favorable to closer association as this has taken shape in the processes of economic integration and the evolution of the subregional international organization. The OAS has also provided the over-all framework for and given material assistance and encouragement to these developments. There has been an interlocking relationship between the hemisphere and the subregional systems of conference diplomacy.

These facts have a meaning for the future, as the Latin American Free Trade Association develops and as the idea of Latin America integration takes hold. Subregional conference diplomacy can supplement and complement rather than compete with the hemisphere system.



Adolf A. Berle: THE COLD WAR IN THE CARIBBEAN

I

THE CREST of the Cold War in the Caribbean Sea may, perhaps, be past. An attack was mounted there by the Soviet Empire and its satellite Communist party allies in the Caribbean. It was designed to take and hold territory, controlled by Moscow, in the Caribbean littoral. Begun at least as early as 1959, it successfully took over the government of Castro's Cuba. It armed that regime with intent to seize power of the states bordering on the Caribbean Sea. This attack led, first, to the Bay of Pigs and, later, to the Cuban missile crisis of October, 1962. At that time it brought the world to the threshold of nuclear war.

Khrushchev, then directing the affairs of the Soviet Empire, retracted. Specifically, he withdrew his missile bases and most of his Russian soldiers. Some apparently remain in Cuba and, quite clearly, ultimate power over that island still rests in Moscow.

Following the missile crisis came a series of guerrilla-type attacks on neighboring Caribbean states, though without benefit of nuclear threat. The bitterest was in Venezuela where, after a bloody guerrilla and terrorist campaign, President Betancourt's government defeated the movement in 1964.

This spring the weak and disorganized government of the Dominican Republic, not yet stabilized, offered a target. Small Cuban armed and trained Communist cadres were in the Republic, awaiting their opportunity. Other units were in training or on the way. Presently came a premature uprising of one section of the Dominican Army. Nominally and perhaps really, it favored restoration of Juan Bosch. The three Com-

munist parties (oriented respectively towards Russia, China, and Cuba but working together) promptly entered the situation and made common cause with the rebels. They intended, however, to seize power in Santo Domingo City for themselves. At one point the chance of their doing this was high.

They had behind them a pledge of assistance by the Soviet people (contained in a communiqué published on January 15 following a "Latin American" meeting in Prague). They also had the support of Castro and the Cuban radio. A Cuban army of 250,000 men in the neighbor island was only a short air-drop distance away. Once successful, the Russian-Cuban combination would have dominated the intermediate country of Haiti and it could have easily initiated terrorist work in Puerto Rico.

President Johnson, rightly estimating that this was an attack, defended by landing American troops in scale sufficient to control the situation—and, incidentally, to deter action from Cuba. In the early fighting before this move, between 3,000 and 4,000 Dominicans were killed—the official count stands as 2,800. After the American landing, the killing rapidly stopped. Of interest is the fact that outside Santo Domingo City, the island remained at peace.

Immediately after the American action, a majority of the Organization of American States approved the move and a substantial number joined in converting the American into an inter-American force, commanded by a Brazilian general. A committee of the OAS is now seeking to establish a government responsive to Dominican wishes—not to Cuban or Russian orders, nor imposed on the country by a handful of armed men able to terrorize the countryside.

Since President Johnson's action of last April, quiet has increasingly descended on the Caribbean littoral. His decision has been criticized in some quarters but I am sure he was right. Popular semantics to the contrary, he was not indulging in "intervention." He was exercising the right of "individual and collective self-defense" guaranteed to every American state, both by the Treaty of Rio de Janeiro and by the Charter of Bogotá. It arises whenever there is "attack" against any American State—in this case, the Dominican Republic. Some—including the *New York Times*—do not believe there was an "attack." I think they are wrong. One may note that these critics have failed to recognize attack—Cold War style—in previous cases and were proved wrong by events very shortly thereafter.

II

It is not clear whether the temporary lull in the Caribbean evidenced at the turn of the year will last. On January 3, an international Communist congress is to be held in Havana. Its stated object is to co-

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ordinate the work of combatting "imperialism" throughout the world. It may result in a virtual declaration of war against the United States, with both Chinese and Russian concurrence. It may initiate "wars of liberation," especially in the Caribbean area, of unsurpassed bitterness and intensity. This, as far as I am informed, is what the Chinese group will advocate. On the other hand, it may, for realistic and other considerations, determine quite otherwise. We shall know before that conference is over. In that case it will be difficult to conceal the fact that "attack" is intended and is real. Nevertheless there is reason to hope for a period of time within which Caribbean problems can be faced.

President Johnson's action, I think, made clear the American position.

Any country, in or out of the Caribbean, is clearly entitled to choose its own social system. It has a right to its own revolutions. It has a right to set up, if it chooses, a social system not based on private property. Equally, every country has a clear right not to have its government seized by a few hundred or a few thousand men, financed and armed from abroad, and acting at the behest of an outside empire. No longer are countries deceived or paralyzed merely because foreign-mounted attacks choose to masquerade as local revolutions or "agrarian reformers." If—as they sometimes do—the attackers make a United Front with honest local seekers after reform, everyone is entitled to determine whether the dominant force, finance and firing power, is activated from within, or from without, the country involved—and to decide whether the movement is essentially local or whether it is essentially an "attack." If an attack, defense is legitimate.

Once that is clear, cheap seizures—like the one brought off by Khrushchev when through Castro he converted Cuba into a Russian camp, or like the unsuccessful Cuban-directed FALN guerrilla campaign that sought to seize Caracas and Venezuela in 1963-64—no longer seem promising. Attackers may find themselves ranged, not against weak, unarmed, or undefended regimes, but against the power of any or all members of the Organization of American States.

Meanwhile, and perhaps because of the clearer American position, I think I discern a waning interest in Moscow in new Caribbean adventures. The Cold War still sputters around the Sea. Elements of the FALN still roam the province of Falcón in Venezuela. Some of these elements are reported active in the northern provinces of Guatemala. Nevertheless, I believe, both they and Moscow realize that the support of the Soviet Empire will be limited to propaganda. My impression is that, as the world wags, the Soviet Empire finds it increasingly less advantageous to make the United States her enemy. True, her recent actions in the Indian-Pakistan crisis made clear her hostile attitude toward our country. There is no general *détente*.

Yet her quarrel with China grows and her economic difficulties are imperious. A period may be in sight when the Soviet Empire abandons, at least for the time being, Cold War ambitions in the New World.

We shall know better after the Communist conference scheduled to take place in Havana next January. There the two empires, Red China and the Soviet Union, will be represented. The results may well be crucial. I think, however, that realities will dominate. If they do, we should have a period of comparative stability in the Caribbean Sea.

Let me add that I still hope for a *détente* with the Soviet Union. At present, it seems far away. But it should become increasingly logical.

III

Waning of the Cold War in the Caribbean will open a massive unexplored, immensely complex problem of reconstruction. The enormity of that problem—perhaps the greatest facing the United States and the cooperating American Powers—has not yet penetrated public consciousness. It is time, now, that we face up to it.

Reconstruction of the Caribbean littoral is one of the most complex economic and social tasks in the world. Four ill-defined areas are really involved. These are the four states of the Greater Antilles: Cuba, Haiti, the Dominican Republic, and Puerto Rico. (Puerto Rico, as you know, is not a colony. It is an associated free state, which by plebiscite has chosen to be within the American economic and defense system. In all other respects, it is independent.) Taken together, these four islands have sufficient land though none too much. Neither Cuba nor the Dominican Republic are, as yet, overpopulated. Haiti and Puerto Rico, on the other hand, are among the most densely inhabited areas on earth.

Next, the Lesser Antilles: a great number of smaller islands running southward from the Windward Passage almost to the coast of South America. Their people are almost solidly Negro. The region is in transition from the status of a collection of European colonies to that of fragmented independence. Already three independent states (Trinidad, Tobago, Jamaica) have recently negotiated their independent sovereignty from the British Empire and many, perhaps all, of the remaining British islands may do the same, probably in groups. The desires of the islands presently colonies of other European powers, notably those under French rule, are obscure. It appears now that the bulk of the archipelago will constitute itself into new, small sovereignties. A cardinal fact is that no one of these new countries emerged or in process of emerging has land, resources, and techniques sufficient to maintain itself unless it becomes a part of some larger economic system. For one thing, the area of arable land in these mountainous islands is small. In relation to it, populations are dangerously dense.

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Anticolonialism is so much a part of the American religion that its effects are rarely faced with frankness. Actually, objection to colonialism is philosophical and social far more than economic. Within the economic systems of the British, French, and Dutch empires, the Lesser Antilles could and did maintain themselves. Divorced from these economic systems, their situation is dangerous. It is hardly conceivable that we, or for that matter, the neighboring countries on the mainland of South and Central American can regard their problems as someone else's business. To take the problem at its simplest, the archipelago must be fed. Too much of its food is today imported from outside. Too much of that has to be paid for by sale of staple crops, notably sugar, of which there is already more than enough in the world—its world price today is about half the cost of production.

Our third Caribbean area runs from the southern border of Mexico to Panama. Here the picture is brighter. The five or six countries involved—Guatemala, Honduras, El Salvador, Nicaragua, Costa Rica, with possible inclusion of Panama—have formed a Common Market. The fundamental necessity of transport has been provided by one of President Franklin Roosevelt's great projects—the Inter American Highway. No one familiar with the Central American area fails to pay tribute to its progress since the Common Market was organized a few years ago. Alone, no one of these countries would have a sporting chance to enter the twentieth century. Together, they are doing so with determination and with rapidity. Overpopulated Salvador can find outlet for manufactures and even surplus population on the Central American plateau. Industrialization is possible within the regional combination having a population of more than 12 million. My own feeling is that Central American is on its way. It needs only stability and a reasonable amount of assistance from the Alliance for Progress to write a brilliant page in economic history. This can be done either with or without Panama, which still hesitates to join the Central American complex. I believe that Panama on consideration will join, and will prosper by doing so. One difficulty is the fact that most of the energy in these countries (aside from a moderate amount of hydroelectric power) has to be imported. Discovery of one good oil field in the region—which is possible—would make the region's prospects bright indeed. Otherwise a few nuclear-energy plants will be needed.

This is not to say that difficulties are not great. Stability of government is not present in some of these countries. Some have a history of dictatorship—and the price of dictatorship, paid at the end, is usually a time of troubles. Sympathy and patience will be required to accommodate the political difference between a sturdy and successful democracy, like Costa Rica, and the tangled history of plot, counterplot, and

military government found in, let us say, Honduras and Guatemala. Yet, taken together, the Central American countries do have within themselves physical, moral, and political resources for economic and social development—and they are beginning to know it.

Our fourth area has no lack of land, of resources, or of capacity. Its difficulties lie elsewhere. This is the southern coast of the Caribbean running from Panama to the Orinoco Delta. The largest area is Colombia, perhaps the greatest center of Spanish American culture in the hemisphere. It has more than adequate land. Great parts of Colombia never came under orderly rule even in the time of the Spanish Empire. Its areas of little bandit satrapies offer fertile fields for international intrigue. Its coastal areas are intensely tropical; its plateau region is temperate; its western areas are more Indian than European. It will take a political genius to unify the country and common effort to structure a viable economic and social apparatus.

Next is Venezuela—endowed by nature with the material for a twentieth-century civilization. Her oil fields in the north are among the richest, most productive in the world. The Great Plains where the Caroni flows into the Orinoco, where electric power is already developed, are so mineralized that the region has been described as a South American Ruhr. Her amazing five years' progress under President Betancourt and now under President Leoni is the most brilliant single piece of contemporary economic reconstruction, I believe, in the entire world. This is more notable because it was achieved in the teeth of a full-scale attack against her government by adventurers and local Communists trained and armed from Havana. Venezuela's next-door neighbor, British Guiana, now emerges from colonial status as the independent nation of Guyana. This is a state half-Negro and half-Asian; the Asian population is led by a Communist party whose leader has chosen to place it in conflict with every non-Communist country in the hemisphere, including the United States. Oddly that did not prevent him from calling in British troops to protect his brief time in office. A rational program for Guyana would involve cooperation with her immediate neighbors and indeed with the rest of the region, and this is the policy of her present government. It remains to be seen whether the Marxist-led Asians would accept reversal of that orientation. Even more interesting will be to see whether a Marxian government—should it emerge—could be divinely inspired to abandon its desire to push Marxianism onto the rest of the region, and within a socialist frame, develop happy and cooperative relations with Guyana's neighbors.

This brief review outlines the size and diverse qualities of the problems which must be met. For met they must be, if the New World is not to be presented with a string of catastrophies. The Lesser Antilles have

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to be fed. The Greater Antilles have to be protected from attack on any of them by any other one of them, doubly so, if these attacks are encouraged, promoted, and stimulated by overseas Communist or other empires. On the Central American mainland, political solutions have to be found keeping and speeding up the operations of their Common Market. On the Caribbean littoral of South America, the limitless resources of Guyana, Venezuela, and Colombia must be developed for the benefit of these countries and, in commerce with the entire Caribbean, indeed the entire Atlantic Basin.

More troublesome yet, all these tasks have to be done simultaneously. Planning must cross lines of race and color, lines of language and culture, lines of history and philosophy, lines of social doctrine. Here is a region which cannot afford the luxury of any kind of war. Not of class war—it cannot afford the loss of trained personnel. Not of race war—the result is destruction without outcome. Not of nationalist war—it would be ridiculous and without result.

IV

In summary, here are four regions around a single, unifying sea. Within each of these regions is enormous diversity. Each of the four regions is in some sense in conflict with, or in fear of, the others. Venezuela was attacked from the Greater Antilles as late as last year. Panama is still not happy with the laborers brought from Barbados and the Lesser Antilles to build the Panama Canal. Most of these countries produce sugar; each fights with the other for a larger share of access to the American market—at an overprice which the United States maintains for the benefit of sugar-producing countries. Haiti must have outlet for a population already beyond tolerable level, while the Dominican Republic believes incursion from its neighbor will spell the end of its own culture and existence. This is a ticket of thorny tasks.

So far as I know, the Caribbean littoral has never been taken as a whole. Now it must be so regarded. The problems of the Lesser Antilles have never been adequately faced. Now they are on our doorstep. In these crude and oversimplified generalities, the lines of work are beginning to appear. They are these.

First, an approach must be devised which takes account of the necessities of the entire Caribbean region. This will take time but is essential. Much of this region cannot survive—let alone progress—unless it is part of an economically greater company.

But to achieve that brings us to our second problem. Common fields of diplomatic and political cooperation must be found, area by area, and region by region. The Central Americans, I think, have shown us the

way. But Common Markets can not exist if divided by fighting lines. Local diplomacy thus becomes of first importance. Caribbean peace-makers will be blessed—not only in heaven but also on earth and in their own countries. They are needed with an urgency impossible to exaggerate. The British Colonial Office, wisely and humanely, endeavored to work out such arrangements between the emerging island republics of the Lesser Antilles. Their early hope foundered on the rock of local rivalry. Yet a means of grouping must be found; and found by the people of these islands themselves and helped by every neighbor.

The Cold War must come to an end in the region. This means, specifically, that the two overseas Communist empires, the Soviet Union and Communist China, must reach the conclusion that they had best keep prehensile paws out of the area. I see no escape from the obligation to act in the common defense whenever they threaten the autonomy of any Caribbean country. Equally, I see a corresponding duty of the more favored countries neighboring the Sea, as well as of the United States, to deal with the greatest sympathy, kindness, and neighborliness with countries engaged in reconstructing their own social systems.

Finally, every resource for education—primary, secondary, vocational, technical, and university—must be employed to assure a continuing growth of trained men. Such men will be needed for all the tasks in question. They will be needed to increase production. They will be needed to industrialize the region. They will be needed in diplomacy to provide working relations with their neighbors. They will be needed in administration and economics to solve the problems of production and credit. They will be needed in every range of culture—from architecture to poetry.

X My conclusion is clear. As the Caribbean area becomes increasingly a single theater composed of many independent states, so it must also be a workshop of international cooperation. By conserving its immense diversity and therewith its infinite loveliness, the region may also show the way towards cooperative action, through which the richness of every country becomes a part of the richness of all.

As the Cold War fades, reconstruction problems, vast and misty, loom before us. They are frightening. They are also a noble challenge.



**Virginia Prewett: A CHANGING UNITED STATES
FOREIGN POLICY**

THE NORTH AMERICAN JOURNALIST who sets out to interpret inter-American relations should be extremely well equipped. He should command the appropriate languages and have a sound working knowledge of Latin America's geography and economics. He should know the dominant cultural traits of the various New World republics, including his own.

He should be prepared to search into millennial Indian cultures or overseas into European civilizations for a basis of understanding. For the one sure way to avoid hopeless confusion in the Latin American field is to look back to the salient patterns that repeat themselves over and over again in New World history.

As a journalist I dare to take the position that unless you ignore the New World's patterns and try to force your own preconceived notions upon events, the inter-American drama can be understood. This understanding makes it to a degree predictable. I do not mean to say that we can tell in advance how any given crisis will come out.

But years of observation have persuaded me that it is possible to grasp the essentials of the story and to follow it without being led astray by the multiplicity and the complexity of its details.

I

The subject of this Conference is United States relations with the Caribbean. I want to trace for you the inevitable line of development of these relations, which have largely determined United States relations

with the rest of Latin America. And I want to project United States policy for Latin America as Caribbean events are forcing it to develop.

My conviction that New World relations are not chaotic nor a senseless repetition of senseless patterns has led me from time to time in the past to make similar projections. One was my insistence from the first that Fidel Castro would be a disaster for his country and his followers. This view was not based on any inside or advance information about his Communistic ties or leanings, but rather on his personality as I saw it against Caribbean history.

Familiarity with all Latin American history should teach us that a curse of the region has been the so-called charismatic leader. Virtually every dictator in Latin American history started out as a political miracle-man and the new Protector of the Poor. This was as true of Mexico's Porfirio Díaz as it is of Cuba's Fulgencio Batista.

A good look at Caribbean history should tell us that the more flamboyant a rising charismatic leader, the louder he shouts, the more he promises, and the more he dramatizes, the more surely he will turn dictator.

Couple this with the fact that every economic policy that Fidel proposed for Cuba had been tried somewhere else in Latin America and proved a failure—and it was not hard to mistrust Castro from the first.

In 1948, long before Castro, I ventured a prediction that caused a furor at the dinner party in Córdoba, Argentina, where I voiced it. I said that in ten or fifteen years we should find the United States Marines back in Latin America. Since then I have occasionally repeated this shocking statement, when I could do so without danger of immediate lynching by both my North American and my Latin American friends. As we well know, this dire foreboding came true in April of this year. More recently, beginning about three years back, I have begun to hint at another heresy, one that is functional today in the United States policy change that is developing. The heresy foreshadows a rising nationalism in the United States.

When my Latin American friends yield to their own emotional nationalisms and loudly assail United States policy, I answer with the parable of the Electronic Curtain. With my tongue only half in my cheek I say that North American scientists are working secretly on an Electronic Curtain that will protect all North American territory from intercontinental missiles or other attack. When this device is perfected, I say, the Yankees will indeed "go home" from all over the world.

This purported forecast causes a reaction as outraged as my earlier prediction that the United States Marines would return to Latin America. I am told even by the severest critics of the United States that the North American people cannot simply withdraw.

As the first step in tracing the new turn in United States foreign policy that current Caribbean events is forcing to come about, I should point to the great foundation fact of inter-American relations. As the Latin American response to my Electronic Curtain reveals, Latin Americans do not really want North Americans to go away. They simply want North Americans to behave as Latin Americans prefer them to behave. This of course will never happen.

Nor will Latin Americans ever conduct themselves in inter-American relations as North Americans fretfully want them to do. What is more important, there is little hope that North Americans and Latin Americans can ever split their differences. For there is always waiting in the wings of the New World, or just onstage or square in the middle of the stage, another actor in the hemisphere drama. This, of course, is the outside challenger-power of the moment.

In a very recent yesterday, the challenger was Nazi Germany. During and before the First World War, Imperial Germany tried its hand. Today it is Communist Russia, with Red China bidding for the role, and a new power-center in West Germany beginning to peep over the horizon.

During the Spanish Empire, the British challenged Spain with their sea-raiders in the Caribbean. While the young United States was divided by the Civil War, France actually set up a puppet state in Mexico.

From the fateful day when Christopher Columbus discovered the New World, it has been the obsession of whatever nation happened to be powerful in the Old World to grab for influence and territory in the New.

From the past we clearly understand that the Caribbean is the key-hole to the New World. Tierra del Fuego is an island lying off the New World's mainland like Cuba, but it aims nowhere. Today's challenger has obtained a stepping-stone in Cuba and the struggle is on.

Cortés' penetration of Mexico, which marked the beginning of Spain's real power in the New World, is topical today. Cortés used a Caribbean island as a springboard. His forces were numerically few. But he capitalized on deep divisions and old enmities in the New World. He also reaped advantage from the Aztec legend that the bearded god Quetzalcoatl would return and bring peace and progress to Middle America. This belief in the coming of a shining leader, of a political messiah if you will, has been subsequently encouraged throughout all Latin America by the Roman Catholic religion, with its insistence that miracles can happen. This taste for the miraculous long fostered by Catholicism is basically the weakness that enabled Fidel Castro to take Havana with a very small band, just as Cortés took Tenochtitlán.

If the North American continent had not produced the powerful and united nation that the United States, we could—envisage one of two things happening to Latin America. Control of the region would have been swapped about for the past century and a half as one Old World power after another rose to dominance. Or else, Latin America would have been forced into a political union in order to defend itself from the Old World's periodical incursions.

But the United States did grow large and strong and sealed its unity in the blood of the Civil War. Latin America, fallen into twenty independent republics after freedom from Spain, has thus been able to enjoy the privilege, if privilege it is, of many rampant nationalisms, of many deep divisions, and of much deep-seated political individualism. From the time when President James Monroe put it into words in 1823, Latin America has had as its almost unbroken shield against new penetration from the Old World the military, political, and economic strength of the United States.

III

The major characteristic of this shielding action is that it is always a response. In spite of what many Latin Americans seem to feel when their emotions are raw, the United States did not grow strong and powerful just to spite the Latin American countries and make them feel small and weak. On the contrary, Latin America's divisions and consequent weakness have periodically caused headaches for the United States. North Americans would be much happier if they could go on their merry way without having to face such worries all too close to home.

We all know that most of the Marine expeditions into the Caribbean began as a response to European operations and machinations there. Before and during the First World War, the United States Marines were sent into the Caribbean countries lest Germany should mount adventures à la Cortés. Woodrow Wilson, of course, tried to change the Marine mission to a democratizing one. After he failed, the Marines became the instrument of economic policy as the United States with youthful abandon adopted Dollar Diplomacy as its foreign policy theme.

The pattern that is forcing a new change in United States foreign policy for Latin America today actually began during the 1930's when Nazi Germany launched a better organized and more subtle assault on the New World than previous contenders had mounted.

The Nazis used the economic development that the United States had pursued in Latin America under Dollar Diplomacy in a judo play. They stigmatized the development as the economic imperialism of a Have nation against the Have-Nots. They preached that the Marine occupa-

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tions the United States had originally put in the Caribbean as part of a military shield against outside penetration were Yankee oppression.

Latin America began to combine against the United States, but it is significant that its gorge and ire did not rise till after the great depression of the 1930's hit. Looking back, their reaction was not so much against the capitalistic development spurred by North American dollars as against the failure of the United States to maintain the world boom it had led in the 1920's. As we know, Latin American nationalism, fed by the new stimulus out of Nazi Germany, which coincided with a beginning drive out of Communist Russia, forced the United States to abandon the policy of Marine occupations in the 1930's.

As the Second World War neared, the Nazi challenge forced other changes in United States policies for Latin America. Washington pushed the inter-American conference system toward hemisphere defense. Economic domination, if it was that, was soft-pedaled, and economic cooperation to save weakened Latin American economies became the vogue. And we should bear in mind that virtually every technique and most of the programs of the Alliance for Progress were originated on a smaller scale under the era's Good Neighbor Policy.

Forced to abandon sending the Marines, the United States quietly forged another military defense shield against new thrusts a la Cortés. Washington began to develop and support the military establishments of Latin America. This involved supporting a number of dictators easy to qualify as bastards. But so long as they formed part of the military defense shield and were our bastards, Washington tolerated them.

After the Second World War, the new challenger, Communist Russia, in the 1950's penetrated the shield in the Caribbean area. For the men who set up the quasi-Communist or pro-Russian Arbenz regime in Guatemala were military men. The United States responded by finding other Latin American army men to back in a military expedition. Arbenz was overthrown and the Caribbean was safe once more.

The collapse of Batista's army in late 1959 was significant because even then the United States was beginning to have doubts about the value of Latin American dictators. Many influential Americans who should have known better at that time succumbed to the Quetzalcoatl syndrome and believed that Fidel Castro, beard and all, would come forth as the miracle-working genius who would solve Cuba's problems. Washington itself pulled the rug out from under the Batista army by cutting off its supplies and the army fell to pieces.

Quetzalcoatl-Castro took power and began to preach his siren doctrine to all Latin America. But Washington gradually perceived he was really Cortés hiding under the whiskers and spearheading a drive for Communist Russia. Then the United States leadership got feverishly to work

modernizing and expanding international cooperation under the name of the Alliance for Progress.

For specific military defense, a version of the ploy that had saved Guatemala had been mounted. A Cuban exile army was trained. It was sent against Castro. And in the heat of battle, when it became a choice between committing United States military forces or allowing the exile force to be destroyed, this instrument of policy was abandoned to destruction.

Many observers have said the Bay of Pigs defeat marked the end of the Monroe Doctrine, which the Organization of the American States had never really managed to continentalize. The fact is that the Bay of Pigs, and its direct result, the establishment of a Russian nuclear military base in Cuba, revived the Monroe Doctrine.

For the North American people, after the Second World War, came to believe that their military defense no longer depended on the territorial integrity of the Western Hemisphere. But the appearance of the nuclear missiles in Cuba so soon after the shocking episode of the Bay of Pigs made a deep mark. And it became a psychological and political necessity for North American leadership to prevent the outside challenger from gaining another square foot of Caribbean or Latin American territory.

After the Bay of Pigs, Latin Americans were quick to recognize that the United States defense posture could not be limited to the economic and social effort of the Alliance for Progress. When President Rómulo Betancourt of Venezuela visited Washington in the spring of 1963 he warned President Kennedy of this. When President Kennedy met with six Central American presidents in Costa Rica later, he heard the same from them.

President Kennedy advised the Caribbean presidents they would have to meet the subversion out of Cuba with their own police and military establishments. This reaffirmed the role of the Latin American military as the final hemisphere defense shield in Latin America.

The military shortly took advantage of their enhanced power to stage the greatest wave of coups in modern Latin American history. In 1963 they overturned elected governments in Ecuador, Guatemala, Honduras, and the Dominican Republic. The Somoza dictatorship in Nicaragua reversed a trend weakening its power and Haiti's dictator Francois Duvalier declared himself president for life. In 1964 Brazil and Bolivia both reversed trends toward extreme leftism in government with military rebellions.

Though the United States was repeatedly warned that Communism would use Washington's support of the military in a kind of political judo play to seize power, Washington behaved as if it had its traditional

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shield in place. Washington concentrated its attention on the Alliance for Progress. And whatever its shortcomings, the Alliance as a response to Castro's Quetzalcoatl promise has far outshone the challengers' performance. Indeed, Castro's attempt to modernize, industrialize, and fatten up the Cuban economy is a spectacular failure. Communism has made Cuba a shoeless sugar bowl for an Old World power, as it was under Spain a century ago.

Predictably, the outside challenger revised its strategy. Though Russia abandoned its thesis that world conflict is inevitable—a move attractively and deceptively labeled “peaceful coexistence”—Russian Communism now placed emphasis on “wars of liberation” for Latin America. From the defenders' point of view, this is subversive and revolutionary violence. This was made the official Communist strategy at a hemisphere meeting of Communist parties at Havana in November of last year.

In late April of this year, Washington hoped that outperforming the challenger in the social and economic field would be enough to blow wide open the Dominican explosion. The Dominican army blew apart and Washington's military defense shield blew with it.

The day when the Dominican army officers opened army arsenals to a rioting public and to a Communist para-military organization among that public was a significant turning point. For if the United States, with its new psychological and political sensitivity to the outsider's thrust into Latin America, could not longer rely on the Latin American military as a shield, then United States leadership would have to fall back on sending the United States Marines. This is what President Lyndon Johnson did.

From the day the Marines landed, the United States had to revise its Latin American defense arrangements in depth. The first thing it had to do as an emergency measure was to get the Marine occupation internationalized as the Inter-American Peace Force. It is a considerable tribute to Washington that this was quickly done. Washington's next task was to rebuild its New World defense shield. Again experience in the Caribbean pointed the way.

In Cuba the explosion of Latin American pro-democrats against a United States-benefited native dictator had opened the way for Castro's march to power. In the Dominican Republic, it was again the explosive force of Latin Americans in rebellion against a government of force that gave the Communist apparatus its chance.

In Venezuela, on the other hand, one of the best-mounted Communist guerrilla campaigns the world has seen failed to win power. In Venezuela the existing regime and its army had the backing of reformist forces that set the trap of Communism. Venezuela's reformist movement had provided Venezuelans with a chance to share in power through peaceful

processes within an electoral system. And there was no need for the national explosion that would give the Communist apparatus a chance to grab power.

IV

These circumstances dictated the big chance in United States foreign policy for Latin America that will gradually be implemented in coming years. Even before the Dominican explosion, Washington's nervousness over backing the native dictators had increased. In a question period at a meeting of the American Academy of Political and Social Sciences in Philadelphia this spring, Under Secretary of State Thomas C. Mann spoke out for inter-American collective military action "against Castro, Duvalier and all the dictators."

United States policy will now necessarily endeavor to patch the New World's defense shield by spurring the kind of political development that will make Latin American regimes successful against guerrilla warfare. This will take some doing, as I think you will agree.

As an emergency measure, Washington must, if it possibly can, get the Inter-American Peace Force now functioning in the Dominican Republic converted into a permanent Peace Force.

People like to say that the United States cannot possibly police Latin America with the United States Marines. Out of rigorous necessity, the United States will police the Caribbean and most of the hemisphere if Washington does not succeed in building a new defense shield rapidly enough.

The new policy for Latin America will have to overcome four major hurdles. First, Washington must persuade Latin American democratic forces not to allow Communism to ride their coattails into a revolutionary explosion. Washington has already embarked on this. In his recent speech to the Inter-American Press Association at San Diego, Under Secretary of State Thomas Mann warned our Latin American friends against either formal or informal common fronts with Communism.

Latin Americans who are suffering under dictatorship are ready to make a bargain with Washington. In Nicaragua, for instance, anti-Somoza forces are carefully keeping clear of Communist involvement while they press for authentic elections. They reason that Washington would rather see the Somoza dictatorship's power reduced or destroyed at the polls than to risk another Dominican Republic.

Second, the new United States policy must outbid a new Communist promise to Latin Americans who are the least advantaged in their own countries. For the guerrilla warfare that Communism is pushing in

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Latin America today is entirely different from that used against Batista or even against Venezuela in the big 1963 campaign.

I quote from a Communist's report to American Communists to describe the change. "As of late 1959, the function of the peasants was to support and aid the guerrilla army which would gradually build up its strength to the point where it could challenge and defeat the regular army. After the climactic battles, the guerrillas would install a new government which would then bring the benefits of reforms to the peasantry. This is essentially a paternalistic conception which locates initiative, revolutionary drive and ultimate responsibility in a guerrilla elite."

This was the theory underlying Castro's campaign. The document says the new tactics, as illustrated in Major Marco Antonio Yon Sosa's guerrilla campaign in Guatemala at present, are in a sense the reverse of this.

"The function of the guerrillas is now seen as that of organizing the peasants and becoming their revolutionary instrument. The climax of the revolution is seen not as a series of pitched battles but rather as an armed insurrection, with the action of the guerrillas in the countryside being closely coordinated with that of the workers and the students in towns. Out of this would emerge from the outset a workers' and peasants' state based directly on the workers' and peasants' committees organized and developed during the preceding stage."

In other words, the Communists no longer promise the Latin American masses that a Quetzalcoatl leader will stage a revolution like Castro's and hand them down land from agrarian institutes and the like. The new promise is to distribute direct power among the workers and peasants through insurrection and let them divide the spoils.

The crux of the plan of course is obtaining arms for the insurrections being prepared by guerrilla action throughout Latin America. Latin American armies—beginning with Guatemala's—are heavily infiltrated and the arms will come, as they came in the Dominican crisis, direct from Latin American arsenals.

It is seen here that in order to meet the raw Communist promise of direct access to power through violence, the United States must sponsor systems throughout Latin America that will really give Latin Americans access to power through peaceful means. This can only come about through some system that employs free elections.

Paradoxically, a third hurdle that United States policy will have to surmount is almost certain opposition from the great inter-American official and semiofficial bureaucracy that is now implementing the Alliance for Progress. This bureaucracy is today dedicated to what I call the new cult of tomorrowism. So long as the Latin American effort is pinned to solutions that will bear fruit ten or more years hence, our

economists and other specialists can in good conscience work away at satisfactory jobs without tangling into the thorny problems of political reform.

The Alliance for Progress was set up as a ten-year program, to produce its final results a decade later. When its first bright promise dimmed, our inter-American specialists saw education as the panacea for Latin America—a panacea that would take another ten or fifteen years to bear fruit. More lately, only this year, the Latin American community of experts has become excited about economic integration for Latin America—another long-range program that at best could fully flower a decade hence.

All of today's social and economic reform programs are identified with today's Latin American incumbents in power. By setting economic and social goals for themselves ten or more years hence, our inter-American specialists can get along quite nicely with these incumbents. Landowners or oligarchs or some group not specifically in office can always be used as the scapegoat for reformist ire.

The North American and Latin American businessmen who are now having fun modernizing Latin American business methods will be reluctant to admit that the political problem will have to be faced.

There is hope, however, for a change of attitude in both groups. This year a meeting in Central America of United States and Latin American businessmen sponsored by the Harvard School of Business Administration came up with the verdict that economic development requires democratic systems in Latin America. And the Economic Commission for Latin America (ECLA) tells me that their whole experience to date forces the conclusion that Latin America's layered societies simply cannot generate enough internal vigor to develop as expanding populations require. This is the economists' way of saying that democratic political systems must be encouraged so that economic and social development may follow—not the other way around.

As a fourth hurdle, the United States, which has packed the New World's regional organization with dictatorships, will now have to unpack it. Already hemisphere military men—especially in Central America—fear that creation of a permanent Inter-American Peace Force will lead the United States to put its resources behind that organization—and cut off their gravy train. They will resist this.

I wish I could say that this next big change in United States foreign policy for Latin America will be inspired by a love for the principles of democracy and for our fellow men in Latin America. But I cannot. Washington is being driven metaphorically kicking and screaming toward the policy change and will implement it only as a lesser evil.

The North American people, who are growing more rather than less

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nationalistic, are also growing more rather than less sensitive about incursions on the Cortés pattern. Latin Americans, though they talk of unifying to form their own defensive shield, are too far from unity for Washington to depend on this.

The United States government will send new Marine expeditions to Latin America as a last resort—and we may see one or more new interventions before the new defense shield is perfected. But fighting Viet Nam-type wars there is the worst eventuality that United policy-makers can now envisage for the hemisphere.

For these are the jolting facts of Latin American geography: Uruguay, the smallest South American country, is larger than South Viet Nam. Paraguay, another South American pygmy, is bigger than South and North Viet Nam together. Brazil is over fifty times the size of South Viet Nam. Central America, here on the Caribbean, looks small on the New World map. Yet even without Panama, Central America is larger than South and North Viet Nam put together.

We have learned in South Viet Nam, as we learned in Cuba and in the Dominican Republic, that supporting dictators does not create a wall against Communist territory-snatching.

These painful lessons of both history and geography will dictate Washington's forced acceptance, at long last, of the thesis that Latin Americans themselves must have access to power in their own lands and that democratic systems are needed to secure the hemisphere's military defense.

I want to say finally that I am not here to advocate this new policy that I have described or to judge it on moral grounds. The United States is being squeezed between history and geography and the policy will be our new response to the latest Communist tactic. This is the observation that I want to leave with you today.

Part VI

BIBLIOGRAPHY AND REFERENCE

**Rose Abella: REFERENCE AND BIBLIOGRAPHY—THE
CUBAN PROBLEM**

IT WAS ONLY LAST WEEK that I was asked to address you in place of Miss Enid Boa. This is not easy, because she is a person who is very well known in the Caribbean and an authority that I cannot possibly replace. The theme of her talk was to have been "Bibliography and Reference Resources." I will try to speak on the same subject as it refers to the University of Miami and as it refers in particular to the service that it has had to give in order to cope with the influx of Cubans in the area as well as Cubans living in other cities of the United States. These Cubans are undoubtedly still part of Cuba, and the United States is serving them, not as Americans, but as Cubans.

We consider reference to be one of the most important services that a library can give, but we do not want to belittle the other departments of the library, without which reference service would not be possible. "The techniques" (I am quoting from the work by Constance Winchell, *A Guide to Reference Books*, Chicago, 1951) "and fundamental principles of reference work remain more or less constant through the years, but the reference works published grow apace and as a consequence, more titles are listed in each succeeding edition of this book."

The general idea is that reference material will be found in the most important encyclopedias, dictionaries, bibliographies, annuals, and similar books. This is true. But it is also true that reference material can be a slip of paper, a title page, a book jacket, a book or memoria of the graduates of a certain school in a given year. A concert program or an art exhibition program may be a valuable piece of reference material. A two-page pamphlet has been a very important source of reference for a

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Cuban. We have received letters from distant towns and cities of the United States requesting from us a xerox copy of a page with which a Cuban can prove that he has completed his high school or university requirements.

I

The Cubans left the island without any documents, and, after the period of adjusting themselves to their new situation and after looking around, they found themselves almost as denuded of personal documents and other worldly goods as when they were born. They are trying to identify themselves with the new communities and trying to prove that they are able to work in a given field because they are qualified for that. Unfortunately, we have not kept school memorias, graduate books, or similar records. Who would have thought that such material was going to serve as reference source material?

More than 200,000 Cubans have left Cuba in the past seven years. They left the island without almost anything. At the beginning the Cubans who came first tried, successfully, to bring their jewelry. Jewelry is easy to carry, easy to hide, and valuable. Later the law prohibited taking out jewelry or money, and they were lucky in being permitted to take out 60 pounds of luggage. Of course they did not include many books in the 60 pounds; besides, that was prohibited. I would say that 99½ per cent of the Cubans did not bring any books. Very few collections came to this country through embassies or other means.

Cuban authors found that their life's work was lost. They could not replace their own books, nor could they send them to be printed again. So they began to come to the library to find their own books. Fortunately, we have, at the University of Miami, a fairly good collection of Cuban books and we have been able to provide their authors with the information they needed. This is a kind of reference need created by a new situation due to the influx of Cubans into Miami.

II

Of all the Latin American people we have been able to help in their research, personal or professional, we have probably been best able to help the economists. The *Grupo Cubano Económico* has been working until lately at the University since about 1960, and has profited greatly by having free access to our resources, and by having the assistance of trained librarians who are enthusiastic about using their skills in this way. The several publications of the *Grupo Cubano* depended heavily upon histories, periodicals, government documents, and a vast assortment of ephemeral material that our library was able to offer. One title

that quickly comes to mind, a periodical that saw very heavy use as source material on statistical matters during the early years of the group's research on this campus, is the *Gazeta de la Habana*, of which our library has a nearly complete file for the latter half of the nineteenth century.

In our eagerness to fulfill the requests from the Cubans, and knowing their importance and value for research in the future, we buy from Cuba as many books as possible and subscribe to periodicals and newspapers. This material is of great value for the people now working with statistics and figures on Cuba; many of the items contain figures which are very important for economists who are thus able to compare past figures with current ones. I am not giving an appraisal of these publications, I am only informing you that the University of Miami is serving a community that has had to face new problems of all kinds within a few years. We have not been selective in acquiring these books, periodicals, and newspapers—we have tried to get as much as possible within the limits of their availability and our budget. We feel that trying to collect this material is very important, not only now, but for the years to come. Personally, I have reached the point where I even keep the wrapping paper from the parcels that come from Cuba!

We consider that the lawyers, Cuban as well as North American—perhaps mostly North American—are the second group to have benefited from our resources. We have had requests from all over the United States relating to legal material. This is easy to understand because the changes of laws in Cuba have created chaos, and also because the Cubans living in the United States, after establishing their personal and professional identity, have tried to establish their legal status. The *Leyes Revolucionarias* issued in 1959 and 1960 caused drastic changes in the legal system. When the Cubans settle down and come face to face with the United States income tax, they have to refer to Cuban laws to clarify their situation, because in their country laws were issued that protected them but were not connected with the new revolutionary laws. Many Cubans have been exempted from taxes because their properties were confiscated by their laws. Some time ago we were greatly flattered by a telephone call from Austin, Texas. A gentleman was asking for a xerox copy of the Cuban laws which we had, issued in October, 1960. Of course, I am almost sure that this Cuban did not know that the University there could have easily supplied him with this material.

III

In most cases, reference material has not been obtained through conventional sources—except, of course, the usual encyclopedias and similar works found in any substantial research library. Many times the sources

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have been most unorthodox. Items not generally kept in libraries became important and we often find that if we had kept some of this material we could have saved, if not the life, at least the job of a person who was unable to bring with him from Cuba any documents that could establish his status. I remember especially the request of a person who was asking for a xerox copy of the commencement program of the University of Havana in 1945. We could not supply this information. I could cite many similar requests, many of which we have not been able to answer.

At present we consider any material coming from Cuba as reference material. It is not easy, though, to obtain it. We have been able to collect a good amount of pamphlets with material that is especially interesting and that shows the changes of the times and the trends. Also, we have been able to collect material that is important for history. We are also keeping all programs, posters, and other papers which come our way.

While we are able to interpret the word "reference" very broadly, to include in our thinking reference resources—any bit or piece that may answer a question—we recognize the much greater precision and restriction implicit in the word "bibliography." Here we must depend upon printed sources compiled with skill and deliberation by a person or persons devoted to the careful and patient organization of facts relating to published works. In general, Latin America is not very rich in bibliographical compilations. I think that they have not fully understood the value and importance of good bibliographies. That does not mean that Latin Americans do not have any important bibliography; certainly they do need more individual author bibliographies. Bibliographical works are scarce and we do not seem to find enough persons who work in this field.

At the University of Miami, particularly because of the situation caused by the Cuban exiles, we find most valuable the *Bibliographía Cubana* by Fermín Peraza, which covers the years from 1937 to the present. But when we have to search for material published in the 1920's and early 1930's the job is not so easy. The *Bibliographía Cubana* by Trelles y Govín covers the material published in the seventeenth and eighteenth and nineteenth centuries, and the beginning of the twentieth century. The *Crónicas Cubanas* by León Primelles gives bibliographical information from 1915-18 to 1919-1922; then there is a gap between the early 1920's and 1937.

Just what additional problems will be presented by the arrival of the 400 new Cuban exiles a day, we do not know. But we will continue to collect every Cuban publication we are able to get—even those that must come to us a page at a time—"disbound," in booksellers' terms.

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[Prepared by R. DON CRIDER and SUSAN S. CRIDER]

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